Underwriting Democracy

Encouraging Free Enterprise and Democratic Reform Among the Soviets and in Eastern Europe

George Soros

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CHAPTER1

Cracking the Communist Structure

I began my work directed at opening up closed societies about ten years ago. I was a successful manager of an international investment fund and I was making more money than I had use for. I began to think about what I should do with it. The idea of setting up a foundation appealed to me because I had always felt that one should do something for other people if one could afford it. I was a confirmed egoist but I considered the pursuit of self-interest as too narrow a base for my rather inflated self. If truth be known, I carried some rather potent messianic fantasies with me from childhood which I felt I had to control, otherwise they might get me into trouble. But when I had made my way in the world I wanted to indulge my fantasies to the extent that I could afford.

As I looked around for a worthy cause, I ran into difficulties. I did not belong to any special community. I was born a Jew in Hungary. Having escaped Nazi persecution by living under assumed names during the German occupation, I went to England in 1947 and then to the United States in 1956. But I never quite became an American. I had left Hungary behind, and my Jewishness did not express itself in a sense of tribal loyalty that would have led me to support Israel. On the contrary, I took pride in being in the minority, an outsider who was capable of seeing the other point of view. Only the ability to think critically and to rise above a particular point of view could make up for the dangers and indignities that being a Hungarian Jew had inflicted on me. I realized that I cared passionately about the concept of an open society in which people like me could enjoy freedom without being hounded to death. Accordingly, I called my foundation the Open Society Fund, with the objective of making open societies viable and helping to open up closed societies.

I had considerable reservations about charitable activities. I had had a formative experience as an impecunious student in London. I had gone to the Jewish Board of Guardians to ask for financial assistance, but it turned me down. The explanation was that it did not support students,

only young men who took up a trade. One Christmas vacation, while still a student, I was working on the railroad as a porter and broke my leg. This is the occasion to get money out of those bastards, I decided. I went back to the Guardians and lied to them. I told them I was working illegally when I broke my leg and therefore was not eligible for National Assistance. They could not refuse me, but they gave me a hard time. They made me climb up three flights of stairs, on crutches, every week to collect my money. At the same time a friend of mine was also receiving assistance from them. He was playing them along; he was willing to learn a trade but kept losing his job. After a while, they refused to help me any more. I wrote the chairman of the Board of Guardians a heartrending letter. I shall not starve, I said. It only hurts me that this is how one Jew treats another in need. The chairman replied by return mail. He offered to send me the weekly allowance without my having to come to the office. I graciously accepted and, long after the plaster had come off my leg and I had taken a hitchhiking trip to the south of France, I informed the Guardians that I was no longer in need of their assistance.

I learned a lot from this experience, which stood me in good stead when I had a foundation of my own. I learned that it is the task of the applicant to get money out of a foundation and it is the task of the foundation to protect itself. The Jewish Board of Guardians had investigated me thoroughly but had failed to discover that I was also drawing National Assistance benefits. That permitted me to write with such moral indignation to the chairman although I was cheating. I also discovered that charity, like all other human endeavors, can have unintended consequences. The paradox of charity is that it turns the recipients, like my friend who pretended to be learning a trade, into objects of charity. There are two ways to overcome these difficulties. One is to become very bureaucratic like the Ford Foundation, and the other is not to be visible at all—to make grants without inviting applications and to remain anonymous. I chose the latter alternative.

My first major undertaking was in South Africa in 1979, where I identified Capetown University as an institution devoted to the ideal of an open society. I established scholarships for black students on a scale large enough to make an impact on the university. The scheme did not

work as well as I had hoped, because the university was not quite as open-minded as it claimed to be and my funds were used partly to support students already there and only partly to offer places to new students. But at least it did no harm.

I became moderately active in human rights as a member and supporter of Helsinki Watch and Americas Watch. My newly created Open Society Fund also offered a number of scholarships in the United States to dissident intellectuals from Eastern Europe, and this was the program that led me to establish a foundation in Hungary. Selecting candidates became a problem after a while, because we had to go by word of mouth, which did not seem to be the fairest arrangement. It occurred to me that it would be advantageous to set up a selection committee in Hungary and have a public competition. I approached the Hungarian Ambassador in Washington, who contacted his government. To my great astonishment I got a positive reply.

When I went to Hungary to negotiate, I had a secret weapon at my disposal: the recipients of Open Society scholarships were ready and eager to help. On the government side, my negotiating partner was Ferenc Barta, who was at the time concerned with foreign economic relations and looked on me as an expatriate businessman whom he was anxious to accommodate. He introduced me to the Hungarian Academy of Sciences, and we concluded an agreement between the academy and the newly established Soros Foundation in New York. (Open Society Fund was considered too controversial a name by the Hungarian government, so I had to set up a special foundation to deal with them.) We established a joint committee with an official of the academy and me as co-chairmen. The rest of the members were independent-minded Hungarian intellectuals, approved by both parties. Both parties had the right of veto over the decisions of the committee. There was also to be an independent executive director operating under the aegis of the academy.

I was very lucky in the selection of my associates. I engaged as my personal representative Miklos Vasarhelyi, who had been the press representative of the Imre Nagy government of 1956 and had been tried and sentenced together with Nagy. He was currently working as a researcher in an academic institute. Although he could not be an official member of the committee, he was

accepted as my personal representative. He was an elder statesman of the unofficial opposition but at the same time enjoyed the respect of officials. His involvement sent a clear signal to society where the foundation stood in relation to the communist regime. I also had a very good lawyer, Lajos Dornbach,[1] who was completely devoted to the cause and was one of a number of people who understood the purpose of the foundation better than I did.

Some very hard negotiations took place both before and after the signing of the agreement. The officials thought they were dealing with a well-meaning expatriate, the proverbial American uncle, whom they could humor and take advantage of. But they soon learned otherwise. My requirement that the foundation be headed by an independent executive became a particular sticking point. The officials' idea was that the committee would make its decisions and the director would take notes, then pass on the decisions to the relevant authorities for execution. The relevant authorities were, of course, an integral part of the internal security system. Matters came to a breaking point. I went to see Gyorgy Aczel, the unofficial cultural czar of Hungary and General Secretary Kadar's close adviser. I told him, "I can't accept; I am packing up." He said, "I hope you are not leaving with bad feelings." I replied that I could not help being disappointed, having put so many months into the negotiations. We were at the door when he asked, "What is it you really need to make the foundation work?" "An independent executive director," I answered. "Let me see what I can do," he said. We arrived at a compromise: the foundation could have its independent director, but the academy also had to be represented, and communications had to be signed both by the academy's representative and our director.

When I interviewed the candidate put forward by the academy, I said to him, "You will have a tough job serving two masters." "Only two?" he replied, which I understood (mistakenly, as it later turned out) to imply that he also had to report to the security agencies. After that, we had a good working relationship. One of the people I had engaged to work in the foundation had lost his job because of his political activities. The official side protested against employing him, saying he had a "spot" on his character. But they allowed him to remain on a temporary basis. After a year, he was promoted to executive director, and he has worked together with the

1 Now vice-president of the Hungarian Parliament.

academy's representative as a coequal ever since.

The foundation announced a number of grant opportunities, including an open invitation for independent projects of an innovative character. We supported a wide range of activities as long as they were not state controlled: amateur theaters, ecological projects, historical restorations, family therapy, sociological research, voluntary associations, summer schools, and myriad other projects.

To finance these grants, we looked for ways to convert dollars into Hungarian currency. Perhaps our most successful program was providing photocopy machines to public libraries and academic institutes against payment in Hungarian forints. We then used the forints to give grants locally. We established local scholarships for writers and social scientists but, ironically, were not allowed to give out grants for foreign travel. That was the monopoly of an official scholarship committee, tightly controlled by the security agencies. I continued to award scholarships through the Open Society Fund, and I made no secret of it. At the same time I announced in the annual report of the Soros Foundation that we were unable to offer scholarships for study abroad because of official objections. Eventually, the Ministry of Education, which controlled official scholarships, capitulated. We agreed that applications would have to be submitted in duplicate and the grants awarded by our independent scholarship committee would be approved automatically by the official one.

Luckily for us, the propaganda apparatus of the Communist party put a ban on publicity concerning the activities of the Soros Foundation. We were allowed to advertise in newspapers and publish an annual report in accordance with our agreement, but that was all. As a result, the public became aware of our existence only gradually, and then only in connection with some activity that we were supporting. We made a policy of supporting practically any initiative that was spontaneous and nongovernmental. The name of the Soros Foundation kept on cropping up in the most unexpected places. The foundation attained a mythical quality exactly because it received so little publicity. For those who were politically conscious, it became an instrument of civil society; for the public at large, it was manna from heaven.

We carefully arranged our activities so that programs considered constructive by the government outweighed those that would be regarded with suspicion by the authorities in charge of ideology. The attitude of the authorities was divided. Those concerned with economic matters were generally in favor and those with culture against. Only rarely did we run into serious objections. When we did, it merely spurred us on. Doing good may be noble, but fighting evil can be fun.

One such conflict occurred in the fall of 1987. Apparently, General Secretary Kadar himself became angry when he read about one of our grants in a weekly newspaper that had taken it on itself to publish our awards regularly. It was for a historical study that might have showed him in an unfavorable light. The weekly was forbidden to continue reporting our activities. At the same time, the Minister of Culture sent out a circular forbidding educational institutions to apply to the foundation directly without checking with the ministry first. I protested both those actions. When I received no satisfaction, I announced that I would not visit Hungary and the foundation would make no new awards until the matter was settled. The stock market crash of October 1987 occurred in the meantime, and a reporter from the Hungarian radio asked me in a telephone interview whether I was closing the foundation because I had lost my fortune. I explained to him why I was refusing to go to Hungary. It was a misunderstanding, I said, which was sure to be cleared up soon. The interview was broadcast, and the authorities were embarrassed. I gained my points and paid a visit to Hungary. While I was meeting with the Prime Minister, the head of the Party's propaganda department, Mr. Berec, personally imposed a ban on any interviews with me. The ban was broken within the week when Moscow TV reported my visit to President Gromyko in the Kremlin and, according to communist etiquette, Hungarian TV replayed it in Budapest. I was amused.

With the passage of time we developed a keener sense of priorities. Miklos Vasarhelyi laid particular stress on youth programs. We supported a number of self-governing student colleges (faculty dormitories where students instituted their own educational programs). They became the incubators of FIDESZ (Association of Young Democrats), which later spearheaded the transition

to democracy and is currently one of the two major opposition parties in Parliament. Several members of our first group of scholars at Oxford later became leaders of FIDESZ.

It is not for me to evaluate the social and political significance of the foundation. I can only give a subjective judgment. It succeeded beyond my wildest expectations. It became an efficient, smooth-working organization full of spirit. After the initial startup period, I did not have to spend much time on it at all; it ran all by itself. It was a real pleasure to make decisions in the knowledge that they would be carried out. It was an even greater pleasure to encounter the foundation at work in ways of which I was not even aware. Once, on a flight from Budapest to Moscow, I sat next to a gypsy who was unusually well-educated. He was an ethnographer collecting gypsy folk dances. When I mentioned my name, he told me he was traveling on a foundation scholarship. At the airport in Moscow I met eighteen Hungarian economists who were on the way to China on a foundation-sponsored study tour. It made my day.

Encouraged by the success of the Soros Foundation in Hungary and aware of the reform movement in China, I put out feelers in the spring of 1986 to find out whether China might be ready for a foundation similar to the Hungarian one. I met Liang Heng, author of *The Son of the Revolution*,[2] just before he returned to China for a visit. He established good contacts among the reformers and, as a result, the Hungarian foundation invited eighteen Chinese economists to come and study the reform process in Hungary and Yugoslavia. The visit was very successful because the real contacts were arranged outside official channels, and the Chinese economists gained very good insights. I met them in Hungary and discussed the concept of a foundation with Chen Yizi, head of the Institute for Economic Reform. Subsequently, I went to China with Liang Heng, who became my personal representative, and set up a foundation on the Hungarian model with Chen Yizi's institute as my partner. Bao Tung, Communist party General Secretary Zhao Ziyang's reform- minded principal secretary, cut through the red tape and approved the foundation on the spot.

Both Bao and the foundation ran into a lot of trouble subsequently when his political enemies tried to use the foundation as a vehicle for attacking him. They prepared an elaborate

2 Alfred A. Knopf, Inc., 1983.

dossier, which named me as a CIA agent and an anti-Communist conspirator. Bao Tung counter-attacked with voluminous information about my other foundations to prove my good faith. That was not too difficult because I had always been very open about my intentions; by 1987 I had also established a foundation in Moscow. President Gromyko himself had put the seal of approval on it by officially receiving me in the Kremlin. Nevertheless, in China, some high party council decided to liquidate the foundation and refund the money. It took the personal intervention of Zhao Ziyang to rescind the decision. He arranged for Chen Yizi to resign as co-chairman and for the International Cultural Exchange Center, whose chairman turned out to be a high- ranking official in the security service, to take over as our host organization.

I was not fully aware of those behind-the-scenes maneuvers. I had not been satisfied with the way the foundation was operating and had been giving poor Chen Yizi a hard time for keeping too much of the money for his own institute, so I was naïve enough to be pleased when he relinquished control. But the foundation did not function any better under the new regime.

I was taken to visit one of our projects, a mobile library unit operated by the Young Pioneers, and was appalled. It was a formal affair, the children in uniform, the instructors making stiff, meaningless speeches, the children forming a *tableau vivant* to demonstrate the use of the library. Worst of all, the secretary of the foundation was so pleased that she had tears in her eyes.

I began to hear some adverse comments from people who had dealings with the foundation. Finally, a Chinese grant recipient told me that the foundation was being run by the security agency. Soon thereafter, Zhao Ziyang was removed from power, and I used that excuse to suspend operations in China.

After the crackdown in Tiananmen Square, the foundation figured prominently in the accusations against Zhao Ziyang and Bao Tung. There were three charges against Zhao: "bourgeois deviationism," for being too soft on the students; betraying state secrets, for telling Gorbachev that Deng Xiaoping still wielded the ultimate power; and, finally treason, for allowing the foundation to operate. Treason is always a capital charge. When I heard about this from Chen Yizi, who had escaped,[3] I wrote Deng Xiaoping a letter offering to clear my name by going to

3 Chen Yizi gave an account of the history of the foundation in an interview with Lu Keng

China or providing them with any information they might need. I wrote in part as follows:

> In its first year (1986-87), the China Fund received more than 200 applications for funding and approved a total of forty grants. In its second year (1987-88), the China Fund received more than 2,000 applications and approved a total of 209 grants. All the grants were publicly disclosed in the annual reports of the China Fund. I think it will be clear to anyone who examines the grants made by the China Fund that they were not intended to promote subversion. Rather, they were intended to promote the publicly stated aims of the China Fund. Those who associated with the China Fund did so in the belief that they were furthering the interests of the Chinese people and participating in an activity sanctioned by the Chinese Government.
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> I understand that rumors have circulated in China that I am associated with the CIA or some other U.S. government agency. There is no truth to such rumors. The funds that I donated to the China Fund, and to the other foundations I have established, are entirely my own. My financial status can be easily checked and verified. Having benefited greatly from an economic system that is capable of generating considerable wealth, I am eager to assist the Chinese government in reforming its economy so as to produce wealth for the whole country.
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> For now, I have ended my support for the China Fund. I am eager to resume support, however. If the Chinese Government indicates its desire to pursue a policy of economic reform and openness, and makes it clear that those associated with the China Fund will not suffer any adverse consequences for their association, I would like to begin again to provide support for the activities of the Fund. Nothing would please me more than to be able to resume a friendly and productive association with your government.

My letter was printed in the widely circulated *Digest of Party Documents*, which indicated that the charge was dropped. It was a relatively happy ending to a very unpleasant experience.

It became clear to me in retrospect that I had made a mistake in setting up a foundation in China. China was not ready for it because there were no independent or dissident intelligentsia. The people on whom I based the foundation were members of a party faction. They could not be totally open and honest with me because they were beholden to their faction. The foundation could not become an institution of civil society (that is, society independent of state and party) because no such society existed. It would have been much better to make an outright grant to Chen Yizi's institute, which deserved support.

Conditions have changed since the revolt of 1989. Prior to the Tiananmen Square massacre, anybody who wanted to change society had to operate within the party. There was little room for

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on October 1, 1989, in Paris: "Chen Yizi Exposes the Plot of Overthrowing Zhao Ziyang—the Whole Story of the Soros Event," *Pat Hsing*, No. 203 (November 1, 1989).

a dissident, independent intelligentsia because society was totally subservient to the party and ostracized those who incurred its disapproval. But after the massacre the party lost the confidence of the people. Those who are expelled from the party or lose their jobs are able to survive because society supports them. That is the beginning of an independent intelligentsia.

Seen from this perspective, the Chinese revolution of 1989 was the equivalent of the Hungarian revolution of 1956. I hope it will not take as long in China for the revolution to bear fruit as it did in Hungary. Hungary was closed to the outside world, but China remains open. With fax machines and foreigners around, it will not be possible to re-establish the rigid thought control that prevailed previously. China has become too dependent on foreign trade and foreign investment to return to a closed society. The hard-liners cannot last very long.

Not long after China, I also established a foundation in Poland. The Open Society Fund had been operating a very successful Polish scholarship and visiting fellowship program at Oxford University under the direction of Dr. Zbigniew Pelczynski, and it was also supporting other Polish causes. Pelczynski, who visited Hungary regularly to select students for our Oxford scholarship programs, persuaded me to try my hand in Poland.

I thought it would be easy: Pelczynski was ready to negotiate with the government, and I had my own contacts with the Solidarity underground. It did not work out that way. The Polish participants insisted that the foundation be totally independent of the government, and I respected their wish. The foundation was established, but it could not function; it could not even find office space. The members of the board attended meetings, but very little was accomplished. There was also a deep disagreement within the board about the direction the foundation ought to be taking. Some members wanted to concentrate on academic activities; others envisioned a broader role. Without clear direction, the foundation failed to establish itself as an instrument of civil society.

I was aware of the problem, but I did not have the time or energy to deal with it. When Solidarity came to power, I asked the board to resign and put the foundation into the hands of a new team headed by Zbigniew Bujak, erstwhile leader of Solidarity in Warsaw, and since then

the foundation has worked much better.

I visited Warsaw only occasionally, for a day or two at a time. Almost instantaneously, I established close personal contact with Walesa's chief adviser, Bronislaw Geremek. I was also received by General Jaruszelski, the head of State, to obtain his blessing for the foundation. We had a very interesting conversation. I suggested that he sit down and negotiate with Solidarity. He said he was willing to talk with practically anybody and was, in fact, trying to arrange a dialogue through the Church, but because the leaders of Solidarity were traitors who had persuaded the Western powers to impose economic sanctions on Poland, he would have nothing to do with them. I told him that I had met Geremek, who had shown a very positive attitude toward reaching some kind of compromise exactly because the economy was in such bad shape and people were becoming disaffected. He knew a great deal more about Geremek than I did. "He changed his religion when he was a mature man; he could not have done that out of conviction," he said. "I had changed my views too, but I did it when I was a youth." It was a great pity that the general had such strong personal feelings, I answered, because it would prevent him from reaching a compromise. In a democracy, you can govern with less than 50 percent of the vote, but when you have no democracy you must have the entire population with you. Without Solidarity that was not possible. I remarked that Solidarity would be taking a tremendous risk if it entered into negotiations, because any economic program would involve severe cutbacks in heavy industry and would hurt the workers who provided Solidarity's muscle. Nevertheless, they were willing to take the chance because they were concerned with the future of Poland as a country. The argument about the political risks that Solidarity would be running made an impression on him. As I found out later, he repeated it at the Politburo meeting the next day.

My foundation was named the Stefan Batory Foundation, after a Hungarian nobleman who became King of Poland and defeated the Russians in war. On the way out of my audience with Jaruszelski, the interpreter told me about a famous saying of Stefan Batory's: "You can do much for the Poles, but you cannot do much with the Poles." I felt the foundation was aptly named.

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The amount of time, money, and energy I devoted to the transformation of Communist systems increased tremendously when I decided to set up a foundation in the Soviet Union. I took my cue from Gorbachev's telephone call to Andrei Sakharov in Gorky in December 1986 asking him "to resume his patriotic activities in Moscow." (Sakharov told me later that the telephone line had to be installed especially for the purpose the night before.) The fact that he was not sent abroad indicated to me that a significant change had occurred in the Soviet Union.

I was hoping to base my foundation on Sakharov as my personal representative. I went to Moscow in early March 1987 as a tourist. I had two introductions from Franz Alerdinck, a Dutchman who had set up a foundation in the Netherlands to sponsor media contacts. between East and West. One was to a high- ranking official in the Novosti news service and the other to the free-lance Soviet journalist Michael Bruck, who was the late Armand Hammer's contact in the Soviet Union. I also had the names of a number of dissidents and independent-minded people who were willing to talk to foreigners. Conditions were not much different then from what they had been ten years previously, when I had gone to the Soviet Union for the first time. The phone rang practically the moment I entered my hotel room. Michael Bruck was on the line. I wondered how he knew I had arrived. He spoke perfect English and acted as my interpreter at Novosty. The man at Novosti mentioned the Cultural Foundation of the USSR, a newly formed organization which had Raisa Gorbachev as its patron. It sounded good and I asked for an appointment. The Novosti official picked up one of the several telephones on his desk and arranged it right away. At the Cultural Foundation I was received by the deputy chairman, Georgy Myasnikov, an older man with a large, craggy, handsome face and very smooth manners. I explained to him how the foundation in Hungary operated and showed him the documents. He was very receptive. Within an hour we were discussing details. I told him that if his people wanted me to proceed he should send me an official invitation.

I also had some interesting unofficial meetings. The late Politburo member Anastas

Mikoyan's grandson took me to meet his best friend, who had been a brilliant academic historian but had dropped out. He called himself a *spekulant* and lived on the fringes of society. A Soviet emigre gave me the name and phone number of a young scientist friend of his. When I called him at his institute, he asked me to meet him at a busy subway station. I also met with such leading dissidents as Sakharov, Grigoyants, and Lev Timofeyev, but they were rather doubtful about my project. Sakharov said that my money would only go to swell the coffers of the KGB. He refused to participate in the foundation personally but promised to come up with some suggestions for possible members of the committee.

After a while I received an official invitation. I found out later that the authorities had checked me out with the Hungarian authorities and had received good references. I was met at the airport by the newly apointed vice chairman of the Cultural Foundation, Vladimir Aksyonov. He was a younger man with whom I established a good rapport almost immediately. He was a fan of Mihajlo D. Mesarovic, a leading figure in complex systems theory and a friend of mine. This put us on the same wave length. He became an enthusiastic supporter of the foundation. "If you had not come along, we would have had to invent you," he said. I made the rounds of prospective committee members, but I felt uneasy. It did not seem to me I was finding people who were independent enough to qualify as members of civil society and at the same time would be acceptable to the authorities as members of the foundation. Indeed, I came to doubt whether civil society existed at all, apart from a few outspoken dissidents like Sakharov.

The breakthrough came in August, when a large delegation from the Soviet Union was passing through New York on the way to the Chautauqua Conference of Soviet-American friendship. Among them was Tatyana Zaslavskaya, a leading sociologist and one of Gorbachev's early advisers, whom I was anxious to meet. I extended an invitation to the entire delegation, and my wife, Susan, arranged a sitdown dinner for 150 people on short notice. It was quite a scene. There was hardly any room to move, but everyone had a great time. Only the head of the delegation, a lady astronaut, was annoyed that, instead of her, I had Tatyana Zaslavskaya on my right. Zaslavskaya and I arranged to see each other again in Chautauqua, where we had

a long conversation and a wonderful meeting of minds. When we discussed the composition of the foundation committee, I felt I was getting somewhere. I had also met the future executive director of the New York office, Nina Bouis, a well-known translator of Russian literature, at my own party.

The committee, when it was finally constituted on September 22, 1987, consisted of Yury Afanasyev, the historian; Grigory Baklanov, the editor of *Znamya*; Daniil Granin and Valentin Rasputin, writers; Tenghiz Buachidze, a philologist from Georgia; Boris Raushenbakh, a space scientist and religious philosopher; and Tatyana Zaslavskaya. Myasnikov and I were co-chairmen, both with the right of veto, and Aksyonov and Nina Bouis were our respective deputies.

From the start, the people on the committee have been wonderful. They have become leading figures in Soviet society, always in the limelight, always overworked, some of them despite frail health. Nevertheless, they have come to the meetings regularly and have put in long hours. Some of our meetings were held on Sundays because that was the only time the members had available. They represented a wide range of views. Baklanov and Rasputin were at opposite poles; our committee meetings were the only occasion when they were willing to sit at the same table. Eventually their antagonism became intolerable because Rasputin increasingly identified himself with an extremist Russian nationalism. We were relieved when Gorbachev nominated him to the Presidential Council and he had to resign. At any rate, in the early days it was very useful to have him on the committee, because with him there it could not be labeled cosmopolitan or left-wing.

Myasnikov was a problem from the beginning. He was the quintessential bureaucrat. He turned hostile early on when I told him that I wanted to rely on the advice of dissidents in selecting the members of the committee. “Grigoryants is not a man of culture,” he told me. We had quite a scene, with some harsh words, but he was more friendly than ever at lunch afterward. Unfailingly polite, he used every opportunity to create obstacles, yet he always yielded in the end because he did not want to take the responsibility for our failure.

I tried to find someone more in tune with my ideas. I went to Leningrad to meet with the Chairman of the Cultural Foundation, Academician Pyotr Likhachev, a wonderfully cultured man of eighty-two who had been through the labor camps under Stalin. He looked to me like a much better choice for co-chairman than Myasnikov. When I asked him to consider the office, he immediately phoned somebody in the Central Committee. When the party official called back, I asked Nina to translate Likhachev's responses for me. But Likhachev never said anything but brief words of assent. Obviously it was one of those famous Kremlin phone calls in which the recipient may use only the earpiece. When he hung up, he said, "Nothing doing. Myasnikov must be the co-chairman."

We got started anyhow. We created our own rubles by donating some computers. I was visiting the head of the Institute for Personal Computers, who told me about his grandiose plans to produce millions of computers for the schools. He mentioned in passing that he had permission to import one hundred IBM ATs and the license was about to expire, but he did not have the dollars to pay for them. I volunteered to supply the dollars if he would give me rubles. "How many?" he asked. I took a chance: "Five rubles to the dollar." The black market rate for tourists was about three rubles at the time. "Agreed." We had a written agreement within twenty-four hours. I then flew to Paris and called IBM. IBM refused to deal with me, as it had a company policy against dealing with intermediaries. So I bought two hundred IBM clones from Taiwan in Vienna for the same amount of money, but I ran into difficulties with the license. We, as an American foundation, were subject to the licensing requirements of the Coordinating Committee on Export Controls (COCOM), even though the Taiwanese manufacturer and the Viennese intermediary were not. I could not get a ruling in Washington, even though ATs were supposed to be coming off license. Eventually I called John Whitehead, Deputy Secretary of State. After that I received both the license and a letter stating that no license was required. Lest I give the impression that American bureaucracy is worse than the Soviet, I must mention that my Soviet counterpart had great difficulty in paying me the rubles. The exchange rate of five rubles to the dollar was unacceptable to the authorities, and a government institute is not allowed

to make donations to a foundation. But finally, after some high-level interventions, we got our money.

Finding office space was another adventure. We ended up in an eighteenth-century merchant's palace, an architectural monument in need of renovation. It belonged to the Cultural Foundation, and Myasnikov did his best to restrict our use of the building. My friends in the Soviet Union devised an ingenious scheme for getting rid of Myasnikov. Fortunately, he was quite lazy and did not realize what we were up to until it was too late. We established an independent foundation under Soviet law, called the Soviet-American Foundation Cultural Initiative, and both Myasnikov and I were promoted to its Board of Trustees without any right to interfere with the decisions of the committee, now renamed the Board of Directors. Aksyonov and Nina Bouis took our places as co-chairs of the board.

Myasnikov is no longer directly involved in the foundation, but he continues to make trouble from a distance. The Peace Foundation came in as the money partner from the Soviet side, offering to put up five rubles for each of my dollars. This also led to untold complications: we made our agreement in May 1988 but got our first contribution from them only in the very last days of 1989.

Undaunted, we started to operate. We invited applications. Out of 2,000 received, we announced our first forty awards. They included two oral history projects dealing with the Stalinist period; an archive of nongovernmental organizations; an alternative town planning group; an association of legal advocates; a consumer group; a cooperative for manufacturing wheelchairs; and a number of research projects dealing with disappearing Siberian languages, gypsy folk songs, the ecology of Lake Baikal, and so on.

Getting an official charter for the foundation was not easy, either. There was another foundation with prestigious backing, the International Foundation for the Survival and Development of Humanity, which refused to operate without a charter and, after a year's struggle, obtained one. We asked for a similar charter, but even so it took the approval of thirty-six ministries and several months' work to get it. But it was worth the wait. It gives us so many

powers that I compare it to the charter of the East India Company. By the time we received it, in February 1989, we were ready to publish our first annual report.

Our progress has been laborious. Every little thing presented a big problem. But it has also been fun. I have met a lot of wonderful people. I don't know why, but I feel a great empathy for Russian intellectuals. My father had lived through the Russian Revolution, mostly in Siberia as an escaped prisoner of war, and through him I must have imbibed some of the Russian spirit. I could communicate very well despite the fact that I do not speak Russian. I have a wonderful guide and interpreter in Nina Bouis. She has great good humor and makes my businesslike American approach more acceptable. In a way, I find better human contact in the Soviet Union than in the United States. We seem to share the same values. My article on Gorbachev's vision, published in the periodical *Znamya*, made me one of the best-liked nonfiction writers in the Soviet Union at one stroke, and I was proud of that status.

After a lot of time and effort, the foundation took root. Our rundown eighteenth-century palace hummed (and is humming still), even at nine o'clock at night. The executive director, Sergei Chernyshov, regularly put in sixteen-hour days. Some very capable new people joined the staff, and Nina spent three months in Moscow. By the end of 1989 I felt that the Hungarian foundation was not the only one that worked.

We started to branch out to the republics. I visited Kiev in the late spring of 1989. I timed my visit so that an expatriate Ukrainian business school professor whom I had gotten to know previously, Bohdan Hawrylyshyn, would also be there. On the first evening the leaders of intellectual life assembled at a meeting to put forward their ideas. I had to discourage most of them and felt quite bad about being so negative. But afterward they told me they loved it. "A Soviet official will never say no. You said no ten times in ten minutes; it was so refreshing." In the evening they took me to the sixtieth birthday celebration of the Ukrainian poet Dmytro Pavlychko. Several hundred people gathered in a big hall to listen to poetry and songs, and then Pavlychko began to answer questions. It reminded me of what it must have been like in 1848.

Subsequently I made Bohdan Hawrylyshyn my personal representative on the Ukrainian—

American Foundation "Ukraine Renaissance" which was officially inaugurated on April 18, 1990. I believe Hawrylyshyn will be as successful in the Ukraine as Miklos Vasarhelyi has been in Hungary.

In the fall of 1989 I visited Estonia and Lithuania. It was more like a state visit than a business call: I arrived everywhere by private plane with the crew of *60 Minutes* trailing me. I was the first foreigner ever to land at Tartu in Estonia. Nevertheless, much was accomplished. We established autonomous branches in two of the three Baltic republics. At present we are also setting up offices in Sverdlovsk, Leningrad, and Irkutsk, so that the Russian republic should not be neglected.

My involvement with the foundation has given me a unique vantage point to observe the evolution of civil society in the Soviet Union. When I went there in March 1987, I could not locate civil society at all, and not only because of my inexperience. Soviet intellectuals themselves did not know what other people thought outside their own intimate circle. Independent thinking was carried on underground. All this has changed. Everybody knows where everybody else stands. Positions have been drawn and differences clarified by public debate. The transformation has the quality of a dream.

There is always a gap between thought and reality. It occurs whenever participants seek to understand the situation in which they are involved. The gap, in turn, shapes the situation in a reflexive fashion, because participants base their decisions not on facts but on beliefs and expectations. Thus the divergence between thought and fact is both an essential feature of the human condition and a driving force of history.

The Soviet system was based on the systematic denial of such a divergence. Dogma was supposed to dominate both thought and reality, and thought was not allowed to be adjusted to reality directly but only through the mediation of the prevailing dogma. That made adjustments difficult and rendered both thought and reality extremely rigid. It gave rise to a different kind of gap: there was a formal system where both thought and reality were governed by dogma,

and then there was a private world where the divergence between dogma and reality could be acknowledged. There were two kinds of people: those who accepted the dogma as it was presented to them, and those who had a private world. There was a sharp dividing line between the two kinds, and I could generally sense almost immediately whether I was dealing with a real person or an automaton.

When Gorbachev introduced *glasnost*, he shattered the formal system of thought. Thinking was suddenly liberated from dogma, and people were allowed to express their real views. The result was the reappearance of a gap between thinking and reality. Indeed, the gap became wider than ever because, while intellectual life blossomed, material conditions deteriorated. There was a discrepancy between the two levels, which endowed events with a dreamlike quality. On the level of thought, there was excitement and joy; on the level of reality, the dominant experience was disappointment: supplies were deteriorating and one disaster after another struck. The only characteristic common to both levels was confusion. Nobody was quite sure what part of the system was in overhaul and what was still in operation. The bureaucrats did not dare say either yes or no, and therefore almost anything was possible and almost nothing happened. That is another way to describe a dream.

The Cultural Initiative Foundation had the same dreamlike quality. Almost everything was permitted, but almost nothing could be accomplished. Having learned to operate within definite limits in Hungary, I was shocked to find that there seemed to be no external constraints on what the foundation in Moscow might do. A representative of the Central Committee attended some of our meetings, but he was a great admirer of Afanasyev, the most radical member of our committee. It was too good to be true but, of course, I had not been to Hungary lately.

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There was a period of about nine months when I was so involved in the Soviet Union that I neglected my Hungarian home base. When I visited Hungary again in the fall of 1988, I found that the country had leapfrogged the Soviet Union. Political parties were forming, and

the Communist party was visibly disintegrating. The foundation enjoyed such favor with the authorities that the Ministry of Education offered to match my contributions in excess of $3 million a year, presumably to establish its own legitimacy. I accepted.

The Soros Foundation found itself in an entirely new situation: its moral capital far exceeded my financial contribution. This opened up possibilities that previously could not have been contemplated. At the same time, the original objective of the foundation had been accomplished. It had set out to demolish the monopoly of dogma by making an alternate source of financing available for cultural and social activities. Dogma had indeed crumbled. It was one thing to work toward that end, but quite another to see it happen before one's own eyes.

I was reminded of a stone that once was removed from my salivary gland. The operation had been quite painful, and I wanted to keep the stone as a memento; but after it had been exposed to the open air for a few days, what had been a stone- hard object and a source of great discomfort crumbled into dust.

It was time for radical rethinking of the objectives of the foundation. We had been effective in working outside the established institutions; now it was time to help in reforming or transforming the institutions themselves. Whether we could be effective remained to be seen, but it was a risk worth taking; otherwise we would ourselves become an institution whose time had passed.

We already had some experience in institution building. We had assisted Karl Marx University of Economics in Budapest in a program to reform its curriculum. Over a three-year period, we sent some sixty lecturers, representing about 15 percent of the teaching staff, abroad to attend a business course, which they would then teach after their return. I was also a founder of the International Management Center in Budapest.

We decided to tackle the humanities first. The teaching of humanities was still largely in the hands of party hacks chosen for ideological reasons. The task would be much more difficult than had been the case at Karl Marx University, because there the initiative came from the university itself, while here we would have to overcome considerable internal resistance. We formed a task

force and made a number of grants throughout Hungary's highest education system; it remains to be seen how successful they will be.

I identified two other objectives: one was business education, and the other, much closer to my heart, the promotion of open society throughout the region. Specifically, I wanted to promote greater contacts and better understanding with the other countries of the region. Programs involving neighboring countries had been strictly taboo; now nothing stood in the way of greater cooperation with Soros-sponsored foundations in other countries. We established our first joint program, a series of seminars at the Dubrovnik (Yugoslavia) Inter-University Center, which took place in April 1989. It will be expanded in 1990 with participants from several more countries.[4]

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After the Gentle Revolution in Prague in November 1989, the Charter 77 Foundation of Stockholm, which I had supported since 1981, sprung into operation inside Czechoslovakia fully armed like Pallas Athena. Frantisek Janouch, founder and executive director, flew to Prague, and I joined him a week later on December 13. We set up committees in Prague, Brno, and Bratislava, and I put $1 million at their disposal. With the help of the newly appointed Finance Minister, Vaclav Klaus, we put up $100,000 in the next official currency auction. It went for eight times the official rate and, even more surprisingly, almost triple the black market rate. The first grants were paid out within the week, allowing such newly emerging underground organizations as the Civil Forum (now the government party) and the newspaper *Lidove Noviny* to pay their staffs. I was very proud of this performance but, ironically, the foundation ran into criticism from the very people it benefited. They were jealous of Janouch because he controlled the purse strings. It was a case of what I call the paradox of charity.

Together with Prince Kari Schwarzenberg, another supporter of the Charter 77 Foundation (and now c*hef de cabinet* of President Havel), we went to see Marian Calfa, who was then acting president. It was meant to be a courtesy visit but it turned into a moving occasion. Calfa opened

4 4. This was the kernel of the proposed Central European University. See p. 130.

his heart. He said that the last three weeks had really shaken his view of the world. He had not realized how far out of touch his party was with reality. He had had an intimate conversation with Jiri Dienstbier, the former political prisoner and newly appointed Foreign Minister, and that is when he found out that dissidents' children had been regularly denied the right to be educated in Czechoslovakia. (Dienstbier's daughter had managed to get to Switzerland.) He was deeply ashamed and determined to establish democracy in Czechoslovakia. We all agreed that it was imperative to have Vaclav Havel elected president by the current rubber-stamp parliament; to organize a plebiscite would delay matters and create uncertainties. Havel as president would consolidate the Gentle Revolution. "Unfortunately, the leaders of the party do not agree with me but, as acting president, I have certain prerogatives and I intend to use them," Calfa said. He sounded sincere, and we were impressed. It was an unbelievable situation: the head of an apparatus of repression that only a few weeks before had routed a student demonstration was voluntarily abdicating in favor of a dissident without an organization who would have trouble winning a plebiscite.

As I began writing this account (January 11, 1990), I was about to go to Romania, meaning to visit Bulgaria shortly afterward. My intention was to sponsor a network of foundations whose main mission would be to promote better understanding and greater cooperation in the region. They would be fully autonomous: it would be up to them to decide how they wanted to cooperate. If they failed to do so, I would stop supporting them. I shall update the story of the foundations later in the book.

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My personal involvement has followed the same revolutionary course as the events themselves. It now extends well beyond my foundations to the issues of economic policy and international affairs. Until quite recently I kept a very low profile: I could be much more effective by not taking a public stand. The fact that I was under wraps in Hungary and did not give any interviews in the Western press was important to the success of the foundation. But all this has changed in

the last few years. I became a public figure; indeed, I began to act almost like a statesman. It was a somewhat anomalous situation, because I had no state to represent, but I soon got used to it. My father, who had lived through the Revolution of 1917, had told me that in revolutionary times anything is possible. I was guided by his advice.

The story began at a conference on East-West security concerns in Potsdam in June 1988. I presented a grandiose plan for a mutual security pact between NATO and the Warsaw Pact, coupled with large-scale economic assistance to the Soviet bloc. My proposal was greeted with laughter, as the *Frankfurter Allgemeine Zeitung* duly reported. The reader will note that, in retrospect, it would not have been such a bad idea.

The Soviet Ambassador in Washington, Yury Dubinin, said that my ideas were too visionary. "Tell us what we can do by ourselves/' he said. That set me to thinking, and during the summer I developed the concept of a market-oriented open sector that would be implanted within the body of the centrally planned economy. Dubinin liked the idea and forwarded it to Moscow. I received an invitation from the Chairman of the Council on Foreign Economic Relations, Kamintsev, who passed me on to his deputy, Ivan Ivanov. We agreed to form an international task force to develop the concept. The team that the Soviet side wanted to field, however, was inadequate. When Dubinin came to see me one morning for breakfast before leaving for Moscow, I told him that nothing would come of my idea unless it was taken up at a higher level. He agreed and got Prime Minister Ryzhkov to issue an order requiring all the relevant agencies to cooperate.

Our team, consisting of Wassily Leontief, the Nobel economist; Ed Hewett from the Brookings Institute; Phil Hansen from Birmingham University; Marton Tardos, the Hungarian economist; and me, went to Moscow in November 1988 and met with a fairly high-powered Soviet team, including Valentin Pavlov, who later became Prime Minister. Our meetings culminated in a four-hour session with Ryzhkov in the Kremlin. He seemed favorably impressed. "It looks like a good way to go, once you have decided you want to get there," he said. "The trouble is we can't make up our mind. There is a lot of resistance to new ideas." It was agreed

that the idea should be developed further and that six subgroups should be set up to study separate aspects of the concept. But underlying this agreement was a conflict between Ivanov's interest in geographically designed free trade zones and our interest in using the open sector to convert the entire economy gradually to market principles.

Ed Hewett took charge of organizing the task force from the Western side. The first series of meetings was arranged for late January 1989 in Moscow. The task force comprised some twenty people from Western countries and a slightly larger number from the Soviet Union. I insisted on a plenary meeting, because I did not want the subgroups to go off at tangents until the basic principles had been agreed upon, but Ivanov kept the plenary very short. It soon became obvious that some of the Soviet participants were genuinely interested and eager to further the cause while others were attending out of bureaucratic duty or were downright hostile to the idea.

One of the "good guys" privately suggested that we ask for a meeting with the economic section of the Central Committee. This was arranged, and several of our group were received by Vladimir Mozhin, head of the section. We presented our concept. I told Mozhin that we needed some direction from the Soviet authorities; otherwise the groups would just go over the same ground again and again. In response Mozhin went through an hour or so of what I call "automatic speaking," until his assistant, who had obviously been briefed by the "good guy" who had suggested the meeting, asked some pertinent questions. We then had a good discussion, but we never got the guidance we asked for. It was a lesson in the ways of Soviet bureaucracy I have never forgotten. I realized that our recommendations would not lead to action.

I told Ivanov that I myself would not take any part in further discussions, but the Cultural Initiative Foundation would continue to sponsor them financially. The meetings continued for a few months but, as I had predicted, they were deteriorating into tourism. We were supposed to present our final report in May in a series of meetings involving first the academics, then the government, then the party, and finally the press. That did not come about because Ivanov asked for a postponement, citing the pressure of other business. I was glad. After my experience with the task force, I no longer thought the concept was viable. I recognized that the decision-making

center was paralyzed and the body of the centrally planned economy had decayed too much to be able to nurture the embryo of a market economy. Nevertheless, I did not consider either the time or the money wasted. I had learned a lot about the disintegration of the Soviet economy and the paralysis at the decision-making center. Besides, some of the Soviet participants learned a lot about market principles. I also got to know some people who would become influential later on. Petrakov, who became Gorbachev's personal economic adviser and one of the authors of the Shatalin plan, was a member of the task force. I came away with the conviction that the Soviet economy cannot be turned around any time soon. The best that could be hoped for was to slow down the process of disintegration so as to give a chance for a much slower process of learning to start producing positive results.

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I felt much more hopeful about Poland, where the process of disintegration had reached a climax and the elections had produced a clear-cut break with the past. That is the kind of discontinuity that permits a new departure. Poland was also a country for which the Western assistance necessary to give the economy an upward momentum could be mobilized. I considered it essential to demonstrate that the political transformation could result in economic improvement: Poland was the place where this could be accomplished.

I prepared the broad outlines of a comprehensive economic program. It had three ingredients: monetary stabilization, structural changes, and debt reorganization. I argued that the three objectives could be accomplished better in combination than separately. That was particularly true for industrial reorganization and debt reorganization since they represented opposite sides of the national balance sheet. I proposed a kind of macroeconomic debt-for-equity swap.

I showed the plan to Geremek and Professor Trcziakowski, who headed the economic roundtable in the talks that preceded the transfer of power, and they were both enthusiastic. I started to drum up support in Western countries, but there I was less successful. The so-called

Paris Club debt (money owed to government institutions), which accounted for three-quarters of the Polish total, was an untouchable subject. Concessions made to one country would have to be extended to all the others; therefore no concessions could be made. Moreover, there was general incredulity that Poland would be willing to switch to a market economy in one bold move.

I joined forces with Professor Jeffrey Sachs of Harvard University, who was advocating a similar program, and sponsored his work in Poland through the Stefan Batory Foundation. He created a tremendous stir with his ideas and became a very controversial figure, but he succeeded in focusing the debate on the right issues. I also worked closely with Professor Stanislaw Gomulka, who became adviser to the new Finance Minister, Leszek Balcerowicz, and was in the end more influential than Professor Sachs.

I visited Warsaw the week after the new government took office. It was my first experience of history in the making. I could see clearly the clash between two contending approaches. The President of the Central Bank, Bakka, who had been appointed by President Jaruszelski and was not responsible to the new government, advocated a policy of continuity. It would have meant piecemeal reforms and would have made the new government dependent on the present power structure, because only they knew which levers to pull. Balcerowicz was committed to a radical approach, but he was overwhelmed by the magnitude of his task. He had brought in with him only two new people to the ministry; otherwise he had to depend on the existing staff—not the best conditions for establishing discontinuity. But Balcerowicz stuck to his guns and presented a radical program of monetary stabilization at the International Monetary Fund meeting in Washington. The IMF approved, and the program went into effect on January 1, 1990. It was very tough on the population, but people were willing to take a lot of pain in order to see real change. The program was prepared in such haste that some serious administrative mistakes were made. I shall give an example.

On December 2, 1989, I took an illustrious group of foreign economic advisers to Warsaw to discuss the Polish plan. When the budget minister outlined the budget for 1990, we were shocked to hear that it was based on an anticipated inflation rate of 140 percent. This was

incompatible with the Balcerowicz plan, which called for a virtual wage freeze after the initial adjustment period. But it was too late to rewrite the budget. Fortunately, the inflation rate came in much higher than expected in November so that, by introducing indexation at the rate of 20 percent of the cost of living, the plan could be fitted to the budget. It would have been much cleaner to fit the budget to the plan and to have no cost-of-living escalation.

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After the collapse of the East German regime, my focus shifted back to the Soviet Union. Events were speeding up tremendously, and I was afraid that there was no time to wait for the Polish experiment to succeed. Only the promise of large-scale Western assistance to the Soviet Union could prevent a descent into the abyss. I summarized my views in an article published in the *Wall Street Journal* on December 7, 1989. I tried desperately to reach President Bush before his meeting with Gorbachev in Malta, but I got only as far as Under Secretary of State Lawrence Eagleburger. That is when I decided to write *Opening the Soviet System*.