

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

**George Soros**

# Underwriting Democracy

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### **The Foundation Network**

My policy in my own foundations has been guided by the considerations I outlined in the previous chapters. My original objective has been attained: the communist system is well and truly dead. My new objective is the establishment of an open society in its stead. That will be much harder to accomplish. Construction is always more laborious than destruction and much less fun. The task far exceeds my own capacity; fortunately, I am not alone in pursuing it. Helping Eastern Europe has become a major industry. I must concentrate the resources of my foundations where we enjoy a comparative advantage.

Most of the efforts that go into the making of an open society do so by indirection: the profit motive and cultural and political pursuits can all contribute to the diversity that is a precondition of an open society. My foundations are almost unique in treating open society as their primary goal. I have now established a network of such foundations, which span the entire region. Each foundation is defining its own character depending on the character of the people associated with it and the particular needs of the country in which it is operating, but they all share a common goal. Herein lies our comparative advantage, which we can exploit.

We support East-West contacts, but there are now many other organizations doing so. Every Western country devotes some resources to the cause, and the European Community has quite a large program for it under the acronym PHARE. But contacts among the member countries of the erstwhile Soviet empire have practically no sponsors other than my foundations. Moreover, most East-West programs are country-by-country, while we try to organize them on a multilateral basis. Along these lines, we try to pick particular spots where we can make a difference. This is a very different approach from the one we followed in trying to break the monopoly of communist dogma. Then, we were practically throwing our money around, like a traditional peasant sowing seeds. Now we are focusing our efforts.

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Two major projects stand out. One is the Central European University. The idea was first mooted in May 1988, when we held a weekend meeting in Dubrovnik in connection with our first Central European seminar series. At that time I rejected it in no uncertain terms. “I am interested not in starting institutions but in infusing existing institutions with content/” I declared. After the fall of the Berlin Wall, I changed my mind. A revolution needs new institutions to sustain the ideas that motivated it, I argued with myself. I overcame my aversion toward institutions and yielded to the clamor for a Central European University. I reconciled my decision with my principles by announcing that my support is for a limited duration: \$5 million a year for five years. After that, the institution will have to stand on its own feet or fold.

Everybody wanted it, but everybody had a different conception of what “it” stood for. We had a number of inconclusive discussions, and I was ready to abandon the project, but it would not die. We now have a commitment from the Czech government of a modern building in Prague with live-in facilities for 250 students and a less well defined offer from the Hungarian government. We have the sponsorship of President Havel, President Goncz of Hungary, and the majority leader of the Polish Sejm, Bronislaw Geremek. We have found an academic planner, Ladislav Cerych, who designed the Tempus program for the European Community, and he is setting up an academic planning board. In the meantime, practical work has started on the first two modules: a graduate school of social studies and a graduate center for ecology. The latter is moving particularly fast, and the first class will start in the summer of 1991. I want to combine the practical education of East and Central European experts with the creation of a center for evolutionary systems theory. The juxtaposition of practical and theoretical studies should benefit both. I have been able to mobilize some of the leading intellects in the field, and I see a chance for establishing a world-class institution.

The other major project is the creation of an international network for the placement of East and Central European candidates as trainees in Western firms. The core of the system is a databank open to all applicants, along with a computerized search protocol that allows Western firms to locate suitable candidates.

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We organized the first get-together of foundation staff in Karlovy Vary (Carlsbad), outside Prague, on September 27-30, 1990. About eighty-five attended. I was shocked by the large number, and in my closing remarks I managed to shock them, too:

I don't like foundations. I think foundations corrupt the impulse that led to their formation. That is so because foundations become institutions and institutions take on a life of their own. A lot of people feel good when they have created an institution, but I feel bad. There is only one thing that can excuse the crime: if the foundations do something really worthwhile. Otherwise they have no business existing.

In the financial markets I have made a career out of taking advantage of institutions, of doing better than institutions, because the financial markets are dominated by institutions and the institutions always respond to the past and not to the future. That gave me a chance to make the fortune which I am giving away through my foundations. So I am quite serious in what I am saying about my opposition to institutions.

And I am very good at killing foundations. Before I started the Open Society Fund I got involved in a very small local project in New York to help renovate Central Park, which is a beautiful park and was in terrible shape. We formed a small organization, the Central Park Community Fund. There was another organization—the Central Park Conservancy—which turned out to be more successful. We were on the verge of attacking what the other foundation was doing because it wasn't us doing it. Fortunately at that point I killed the foundation, and I am more proud of that than I am of having created it.

But then I relented. "Don't worry, I said. "I am not about to kill our foundations, because they are doing something really worthwhile. There is a powerful idea behind them which justifies their existence. The idea is not as simple as it was at the beginning when it could be summed up in two words: civil society. It can still be summed up in two words: open society, but it is not so simple, because open society is a complex system, much more complex than the oppressive totalitarian state to which civil society was opposed." Then I went on to explain my concept of open society. Finally, I gave an account of the network of foundations, which has also become a very complex structure since it is based on the principle of self-organization.

Each foundation has its own profile, which is very much what I wanted, because it is meant to serve the needs of the society in which it functions and not my need of having a very clear and neat picture of what the foundations are doing. So I am very pleased that the foundations are different in character because they draw on the energies of the people involved in them.

Each of you has your own picture of your own foundation. I shall give you my picture. I shall use the Hungarian foundation as a reference point because it was the first and in many ways the most successful. That foundation has already gone through three phases. In the first phase

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it was an institution of civil society, but that phase is now over. Then came a short period when civil society was successful and we enjoyed the fruits of victory. We had a moral authority far exceeding our financial resources because the government had no legitimacy and no authority. It was ready to do practically anything we asked. We could write our own ticket and we tried to do so. For instance, we embarked on a rather ambitious program to reform the teaching of humanities in the universities. But this period lasted only for a very short time, until the elections, because now there is a legitimate government whose outlook is somewhat different from mine. I am accused of being in cahoots with the opposition, and although we have been careful not to support the Free Democrats or the Young Democrats as political parties, I do not deny that I have a greater affinity with them than I do with the government. Once again, there is a distance between me and the government, and I think that is a very healthy development. We have now entered phase three, which I would describe as institution building for open society. In this context, open society does not end at the borders of Hungary, nor are the institutions we are trying to build confined to Hungary.

There is another model that has emerged, the Polish model, which is quite different from the Hungarian. After some false starts it has managed to tap into energies that are passionately committed to the concept of an open society, but the way the people involved in the foundation perceive their task is quite different from my concept. They do not see the foundation as a grant-giving organization open to all and trying to support other people, but rather as being the people with energy themselves. In other words, they run an institute rather than a grant-giving organization. It is a perfectly legitimate conception, but I would prefer to see a two-tier structure, with a grant-giving organization at the top and an institute underneath.

Taking the three phases of the Hungarian foundation and the Polish model, I can place the various foundations. Romania, for instance, is at stage one of the Hungarian foundation because in Romania civil society still needs to be established. We are having a difficult start because the government is less than helpful. There is also a danger that the foundation will follow the Polish model because our association with the Group for Social Dialogue is too close. But I am very much in support of the endeavor because I feel that the need is great and the task is one which we have already proven we can do. Bulgaria belongs to stage two of the Hungarian foundation because we are dealing with a reform communist government which is very receptive to our efforts, and the foundation is off to a flying start. Czechoslovakia is somewhat different because the foundation has been in existence for ten years, but operating outside the country and underground. Even though it supported a civil society, actually there was not that much civil society inside Czechoslovakia, so the foundation could not establish itself in public consciousness as it did in Hungary. Nevertheless, it has great legitimacy because it was practically the only manifestation of civil society during the years of repression, and in that sense it belongs to stage two of the Hungarian foundation. But it has not yet deserved the credentials it has, and it faces a tremendous challenge to justify its existence.

I have also offered to set up a small foundation in Yugoslavia to operate on a federal level and overcome the tendency to have a quota based on nationality for everything. I have reached an agreement with the government, but the people who are supposed to run the foundation have not moved, and I am not going to remind them. If they do not care, I can certainly spend the money

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elsewhere. So there is no foundation in Yugoslavia.<sup>14</sup>

Then we come to the Soviet Union, where the process of disintegration is not yet complete, yet the need for constructive activities is very pressing. That makes the task of the foundation very difficult. We have tried to establish ourselves as an institution of civil society, but we could not possibly succeed in the way we have in Hungary because of the sheer size of the country. I am spending about as much money in the Soviet Union as I am spending in Hungary, but the country is twenty times larger, so we cannot make much of an impact. Within the circumstances I think we did a pretty good job, but our main role has to be on the constructive side. I have been an avid supporter of the Shatalin Plan, and I have tried to create the model of a confederation in our foundation network. We have established independent foundations in the Ukraine, Estonia, and Lithuania, with others to follow. Within the Cultural Initiative Foundation there is now a commission for economic initiative, which is gathering momentum. There is also a commission for legal culture, which has gained considerable stature lately.

Then I described the Central European University and the East West Management Institute, which I could envision as permanent institutions, while the national foundations may eventually fade into history—because I do not think that the support of civil society is an activity that needs to continue once the oppressive, dogmatic system has been properly destroyed and an open society has taken root. This gives a fairly complete picture of where the foundations stood at the time of the Karlovy Vary meeting.

Since that time the activities of the foundation network have grown by leaps and bounds. I have given priority to Romania and the Ukraine. In Romania the devastation wrought by the Ceaucescu regime is so complete that there is hardly any basis left for the construction of an open society. It is difficult to find people with a clean past, and those who qualify lack any aptitude or experience in practical matters. The influence of the Securitate has been so pervasive that people are mistrustful to the point of being paranoid. The fact that I am Hungarian has made the foundation a suitable target for an extreme nationalist organization called Vatra Romanesca. The government has followed a policy of “malign neglect.” In these circumstances the foundation was foundering until I engaged a young Romanian expatriate, Sandra Pralong, to help put it on its feet. She has worked wonders. She cut through the atmosphere of suspicion by simply ignoring it. She advertised for staff and engaged four young women and a young man

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14 The Yugoslav foundation was officially inaugurated on June 17, 1991.

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who are full of energy and good will. She organized competitions for places on our foreign travel programs and published the results, so that we are now operating in the full glare of publicity. By these means she prepared the ground, and when we were ready we held a grand opening, at which we announced that we want not only to help build an open society but also to be the prototype of an open society. After the festivities in Bucharest we flew to Iasi, a university town on the border of the Soviet Union. Uncharacteristically, I chartered a private plane because that was the only way to get around. It was minus 18 degrees and a snowstorm was raging when we arrived; one-third of the town was without heat, because the Soviets had cut the supply of natural gas—our hotel had heat but practically no light. Nevertheless, we found an enthusiastic group of people waiting for us, and we launched a local branch. Then we flew to Cluj in Transylvania, where the accommodations were more comfortable but the atmosphere less stimulating. I have a very good feeling about the work of the Romanian foundation. The main problem is the lack of communications. We cannot get through by telephone or fax, and sometimes weeks go by without contact. It is difficult to maintain momentum.

The Bulgarian foundation has produced excellent results without any help from the outside. It has grown into a clearinghouse for Western assistance, and the scope of its activities far exceeds the financial support I provide. To a lesser extent the same is true of the Stefan Batory foundation in Poland. The Charta 77 foundation is functioning less smoothly, but is receiving a large endowment from the Czech government in recognition of its past services.

It is the Hungarian foundation, the most successful one in the past, that is having the greatest difficulties at present. We have lost most of our leverage. In the past we could turn the weaknesses of the communist system to our advantage and have a large impact with relatively small amounts of money. By giving small grants to people working in state institutions we enabled them to do what they wanted and not what the state wanted. And by making dollars available against repayment in Hungarian currency we could subvert the institutions themselves. For instance, our program of providing photocopying machines was a glorious success. But those days are over. The state is no longer the enemy and, what is worse, the state is exceedingly poor.



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Apart from the matching funds we receive, we must rely on our own resources. Our capacity has shrunk even though I spend more money. Neither the staff nor the public fully appreciates the extent of the transformation. As the country gets poorer, the demands made on the foundation increase, and there is no way we can satisfy them. It is not just the lack of money but even more the lack of controls that obliges us to change our method of operation. In the past we could simply trust the people who received our grants. But conditions have changed. Everyone is out for himself. We are no longer the only foundation in existence and the normal rules that govern the relationship between grant giver and grant recipient have begun to apply. We have been slow to adjust and therefore probably easy to take advantage of. As we fail to satisfy the demand, the attitude toward the foundation begins to change. Once it starts, the process is liable to become self-reinforcing. We are in a crisis, but we are reluctant to face it. We must change, but any changes we make will be for the worse, because our past has been so satisfactory.

Interestingly, the solution is to confine our activities on specific programs and cease functioning as a grant-giving organization open to all comers. We announced the end of the open application system in May 1991. In the future we shall have four kinds of activities: those we have decided to continue out of the present activities of the foundation (e.g. travel grants and support to certain cultural organizations that could not survive otherwise); Western know-how programs (e.g. media workshops and other forms of training); East-East programs (e.g. publishing articles and books from other East European countries); and the successor foundations (e.g. Central European University). This means that we are moving toward the format adopted by the Stefan Batory Foundation much against my desires. Having started later, they may have been ahead of the Hungarians in this respect—only I did not recognize it.

The Cultural Initiative Foundation in Moscow is also going through a difficult period. The official attitude toward the foundation has changed for the worse since my involvement in the Shatalin Plan. When Valentin S. Pavlov came to the foundation to meet with the group of economic advisors whom I brought to Moscow, he openly told the staff that he would withdraw the tax-exempt status of the foundation unless the economists gave him the endorsement he

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wanted. Subsequently he followed up on his threat. Now he is Prime Minister. In April 1991 the foundation was attacked in the hard-line newspaper *Sovietskaia Rossiya* for engaging in subversive activities. Our internal organization leaves much to be desired. The foundation is not as open to the public as I would like it to be. The attempt to build a network of businesses associated with the foundation turned chaotic, and we had to engage a business consultant to try and sort it out. We acted in the nick of time to avoid a serious embarrassment. But we have an eminent and committed board, and I am determined to continue supporting the foundation as long as possible. We may have to batten down the hatches and reduce the scope of our activities, but we shall refuse to compromise our principles. What these principles are I have made clear in this book and elsewhere, and if they are unacceptable, the authorities will undoubtedly make our life difficult.

The foundations in the republics are functioning much more effectively than the Cultural Initiative Foundation itself. In Lithuania the committee continued to select candidates even while the Parliament building was under siege. I am particularly keen on the Ukrainian Renaissance Foundation.

If a new center of organization, which can command the allegiance of the people, is to emerge, it has a better chance to do so outside Moscow, for the simple reason that it would be geographically distinguishable from the old center. That is what makes the Ukraine a more promising base for building a new center than the center itself. Moscow is, of course, the natural center of a new Russia, but it may be more difficult to bring a new Russia into existence than a new Ukraine exactly because of the pervasive mistrust of the old center.

Not that the creation of a new Ukraine would be easy! As a country, it does not have any more cohesion than Russia; indeed, it has less. The eastern part has a large Russian population, and the western part, which used to be part of Poland before World War II, has a much more vivid memory of what it is like outside the Soviet Union than does the rest of the country. The Crimea has no more reason to belong to the Ukraine than to Russia, and Odessa has an ambience all its own. Only if it adopts a loose confederate structure does the Ukraine have any chance of

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becoming a viable unit. Fortunately, the present leadership of Rukh, the nationalist movement, recognizes this fact, and that makes it attractive in my eyes. There are some good people involved in the Ukrainian Renaissance Foundation, as my enterprise there is called. I am ready to back them even if their chances of success are slim.

I have now come under attack in several countries: in Hungary from Hungarian nationalists; in Romania from the *Vatra Romanesca*; in Slovakia from the communist party newspaper *Pravda*; in the Soviet Union by the organ of the hard-liners, *Sovietskaia Russiya*. If I had any concern that my foundations have a mission to fulfill, these attacks have removed it. I had begun to feel some doubts as to whether all my activity was justified, whether the idea of an open society might be too abstract and detached and lacking in commitment to anything or anybody in particular. Now, however, I have been reminded that there is something even more unsound in the idea of a closed society, because it allows its adherents to reject and suppress anyone who does not belong. As long as the threat of a closed society remains so acute, the concept of open society remains a goal worth fighting for. I had foreseen a conflict between nationalism and freedom, but it is one thing to anticipate it in theory and quite another to experience it in the real world. The issue has arisen sooner, more pervasively, and more virulently than I had expected. I am ready to stand up and be counted.