

THE SOROS FOUNDATION—SOVIET UNION

Prime Minister

This is not at all
impressive when speaking
about western policy.

January 5, 1989

But it does have
some insights into
Gorbachev & his problems,
which I have
underlined.

Mr. Charles Powell
Prime Minister's Personal Office
10 Downing Street
London WC1

Dear Sir:

Enclosed is an article I intend to publish shortly. You may
find it interesting.

COP
b/i

Very Truly Yours,

George Soros / mpt

George Soros

Its conclusions
are damning in their
naivety.

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January 5, 1989
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GORBACHEV'S VISION

(first draft)

Gorbachev's new thinking ought to prompt some serious new thinking on our side. Clearly, something important is happening in the Soviet Union; but we find it rather difficult to put events into the proper perspective.

We have learned to look at the world in terms of two superpowers facing each other; they are profoundly different in social organization and ideology but they are similar in wanting to see their point of view to prevail. Private individuals do not necessarily think in this framework but those who are in

charge of our policy do: if they deviate too far from it, they will not be allowed to remain in charge of policy.

Using this framework, the changes introduced by Gorbachev ought to be similar in kind, although not necessarily in magnitude, to the ones which occur in the United States when a new President is elected. Somehow, this interpretation does not seem to do justice to reality. It may be necessary to revise the framework but, rather than embarking on such an arduous task, we prefer to sit tight and await developments. Perhaps the phenomena which disrupt the framework will go away.

That is a pity. What Gorbachev has done is to destroy the framework in which Soviet policy is formulated. If we had the courage and imagination to follow his example, we could

create a new world order which is not based on two superpowers facing each other.

Unfortunately, we are ill-prepared to contemplate such a possibility. We have enough difficulty in coping with the present world order in which we have made such far-reaching economic, military, intellectual and emotional investments. The presidential election, where debate was reduced to one-liners and no thought requiring a complex sentence to express it was admitted, proved less than helpful in this regard.

Reality may yet force us to do some new thinking. Our economic competitiveness has eroded and our financial condition has deteriorated to a point where the dollar is no longer qualified to serve as the reserve currency of the world. We are

clinging to positions we have carved out for ourselves, but we find it increasingly difficult to maintain them. This applies not only to our military commitments but to many other areas such as our voting power in the International Monetary Fund. It is only a question of time before our positions will have to be modified. It will make all the difference whether our thinking leads or lags reality.

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Gorbachev's new thinking sprang from a deep-seated crisis of the Soviet system. As Robert Kayser emphasized in his article in *Foreign Affairs*, the crisis is a fact, while the outcome of Gorbachev's reforms is a matter of conjecture. Our own difficulties pale into insignificance when compared with the

problems facing the Soviet Union. Less than two years ago, Seweryn Bialer could argue convincingly that the Soviet Union would not follow China along a path of economic and political reform because the Soviet empire needed a repressive regime to hold it together. His analysis was valid, but it failed to take into account the emergence of Gorbachev as a charismatic leader capable of attempting the impossible.

Gorbachev has introduced a new dynamic into the Soviet system. His policies are not based on thorough and careful political analysis but emerge in response to challenges. They are not necessarily consistent or even well formulated; but they are illuminated by a vision which makes them hang together and allows him to move forward in the face of seemingly insuperable difficulties.

What is Gorbachev's vision? It is best to consider this question under three headings: international relations, internal politics, and the economy. His vision is clearest and most far-sighted in international relations -- indeed, "new thinking" as an expression is usually applied to this sphere. It is also in this sphere that he can count on the most competent professional support because people dealing with international relations usually have first-hand experience of the world outside the Soviet Union.

Gorbachev's goal is to break the isolation that the Soviet Union has established around itself under Stalin's rule and to reintegrate it into the community of nations. A number of motives can be discerned behind this goal. One is the recogni-

tion that the Soviet Union can no longer survive in isolation. It has been materially and intellectually depleted to a point where it cannot support the burdens of a superpower. Another is the genuine dread of a nuclear holocaust. It is more deeply felt by those in responsible positions than in the West, and with good reason: they have first-hand knowledge of the rigid and inefficient command structures that characterize the Soviet Union. Their attitude stands in sharp contrast with the rather blind faith in technology that prevails in the West. But by far the most powerful motive is a burning desire to destroy a system of thought which can flourish only in isolation. I refer, of course, to the dogmatic mode of thinking that was imposed on the Soviet Union by Stalin's terror and perpetuated by the power structure that he has left behind. Once the isolation is broken,

the gap between dogma and reality stands revealed and dogma loses its power to persuade.

- but reality does not
yet inspire people to accept their own
responsibility ~~or~~ even to know

Many people in the Soviet Union were unaware of the gap how.

and are understandably confused now that it has been revealed;
but, for those who were aware of it, nothing was more pressing
than to reveal it. Thus, Gorbachev's new thinking about interna-
tional relations has as much to do with glasnost as with super-
power rivalry.

Those in the West who are professionally engaged in su-
perpower rivalry find this point hard to take. They have been
reared in the discipline that the interests of the State deter-
mine the policies of the State. The principle may be valid in
normal times, but this is a time of internal turmoil when the in-

terests of the Soviet state are in the process of being redefined. The Soviet Union does not want to be a superpower any more -- indeed, the Soviet Union does not want a world dominated by superpowers. Hence the willingness to settle all outstanding conflicts; hence the urgency to disarm; hence the use of scarce dollars to pay up U.N. dues; hence the new rhetoric about living in a European house.

The change is too sudden and too radical to be believed. There must be some ulterior motive, a desire to drive a wedge between public opinion and government in the West, to cause dissention within the Western alliance. Well-established patterns of thought are difficult to break. I attended an East-West conference on disarmament in Potsdam in June 1988 where the Soviet participants first floated their plan for conventional

arms reduction. A serious private discussion in the morning deteriorated into public posturing before the press in the afternoon. Yet at the same meeting the newly-appointed head of the Soviet Institute for Western Europe argued in favor of continued American presence in Europe -- otherwise Europe would not be large enough to accommodate the presence of the Soviet Union. He has certainly gone further than most people in the West in considering all the implications of Gorbachev's foreign policy!

Gorbachev's "new thinking" is much more tentative with regard to domestic political issues. This was demonstrated at the special party conference in the summer of 1988 where he prevaricated on the relationship between popularly-elected Soviets and the party leadership. He seems to have put almost

excessive faith in the democratic process and failed to anticipate the difficulties that it would give rise to.

He ran into two major obstacles. One is the unwillingness of the party apparatus to relinquish power; the other is the desire of various nationalities to claim ever-increasing autonomy, not excluding the possibility of total independence. Both tendencies could have been predicted and it was perhaps just as well that Gorbachev was a less far-sighted political analyst than Seweryn Bialer, otherwise he may not have embarked on his program of democratization in the first place.

As it is, a makeshift solution seems to be emerging. He is trying to sidestep the influence of the Central Committee by establishing a Presidency based on popular elections, while

maintaining the unity between the party apparatus and the popularly-elected Soviets by insisting that the head of the party must be approved by the Soviets at every level. At the same time he is trying to curb the secessionist tendencies of the nationalities by centralizing control over the organs of law and order.

The net result is a dangerous concentration of power in his own hands, at least on paper. A number of constitutional safeguards are in the process of being removed and the popular elections are unlikely to amount to much more than a sham so that, if the maneuver is successful, Gorbachev will emerge as an enlightened absolute ruler trying to impose democracy from above with all the contradictions inherent in such an arrangement.

As far as the nationalities are concerned, it is taken for granted that their place is within the Soviet Union, just as it is assumed that the satellite countries of Eastern Europe will want to remain within the Warsaw Pact. If Gorbachev were to verbalize his hopes for the future he might speak of the gradual transformation of the Soviet Empire into a Commonwealth but, significantly, the analogy with the British Empire has never been used and it may express my hopes rather than his. There is a certain conceit among the Moscow elite which prevents them from realizing that, given their choice, people may not choose to remain dependent on Moscow.

Gorbachev's "new thinking" is most feeble with regard to economic matters. There is a lack of understanding of elementary economics that permeates the country and reaches the highest

echelons of the leadership. The contrast with China is striking.

Zhao Ziyang is an accomplished economist and he has a think-tank of brilliant young intellectuals at his disposal. There is nothing comparable in the Soviet Union.

It is generally recognized that something needs to be done and there is a vague desire to reduce the role of central planning and allow the participants in the economy greater freedom of action. What is not understood is that the appropriate decision-making units do not exist: they need to be brought into existence. Given the opportunity, consumers and workers can be expected to look after their own interests; but nobody looks after the profits of the enterprise. The fault is not so much with management but with a system that neglects the interests of capital. As a result, capital is wastefully used

and it produces totally inadequate returns. For instance, it takes ten years on the average to build a new plant. I visited the Museum of Paleontology in Moscow, which was still not open to the public after seventeen years of construction. No investment can be economic in these circumstances.

The problem is not unique to the Soviet Union; it has played havoc with economic reform in China and Hungary. But there, at least, the problem is beginning to be understood. China has drastically curtailed its investment program and called a halt to price reform until further progress is made in the reform of the enterprise. In Hungary, state-owned enterprises are actually being transformed into joint-stock companies.

In the Soviet Union, economic reform has been tentative and haphazard. Half measures have brought disruption and confusion. Allowing enterprises a measure of autonomy within a command economy has encouraged them to exploit the anomalies of the system. To use Sakharov's favorite example: the cheaper varieties of soap have disappeared because soap factories turn out only the expensive kind. Since enterprises have no real incentive to maximize profits, the increase in prices is matched by a reduction in quantities. Shake up a rigid structure and it is liable to collapse. The earthquake in Armenia is a dramatic metaphor for the Soviet economy.

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I have become intensely involved in the Soviet Union since the beginning of 1987, after Gorbachev summoned Sakharov to return to Moscow to "resume his patriotic work". I have set up a Foundation with the express purpose of helping the Soviet Union to evolve into a more open society. It started out as a joint venture between the Cultural Foundation of the USSR and my foundation in New York but it has evolved into an independent entity operating under Soviet law, called "Cultural Initiative". It has an independent board consisting of Soviet citizens with the exception of the two co-chairmen, one of whom represents the Cultural Foundation and the other my own foundation. The board reads like the *Who's Who* of *glasnost*: (list). Every dollar I contribute is matched by a ruble contribution from the Peace Foundation which used to support such notorious propaganda organs as the Peace Committee.

The foundation accepts applications from the Soviet public and the first forty projects selected from over two thousand applications gives a flavor of its approach. It contains two oral history projects dealing with the Stalinist period, an archive of non-governmental 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 folksongs, the ecology of Lake Baikal and the like.

My involvement with the foundation has given me a unique vantage point for observing the evolution of intellectual

life in Moscow. The overwhelming impression I formed is that it 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 participate. 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 motive force of history.

The Soviet system is based on the systematic denial of a gap. Dogma is supposed to dominate both thought and reality. Thought is not allowed to be adjusted to reality directly but only through a modification of the prevailing dogma. This makes

adjustments difficult and renders both thought and reality extremely rigid. It gives rise to a different kind of gap: there is a formal system where both thought and reality are governed by dogma and there is the real world which is quite different from the formal system and people are obliged to pretend that there is no difference between the two. This is the gap that people have learned to live with, either by recognizing it, or by denying it, or by finding some compromise.

Along comes Gorbachev, introduces glasnost, and shatters the formal system of thought. Thinking is suddenly liberated from dogma and people are allowed to express their real views. The result is a reappearance of a gap between thinking and reality. Indeed, the gap becomes wider than ever because all the changes occur on the level of thought and reality hardly

changes at all. There is a discrepancy between the two levels
which endows events with a dreamlike quality. On the level of
thought, there is excitement and joy; on the level of reality,
the dominant experience is disappointment: supplies are
deteriorating and one disaster strikes after another. The only
characteristic that seems to apply to both levels equally is con-
fusion. Nobody is quite sure what part of the system is in over-
haul and what is still in operation; the bureaucrats dare not say
either yes or no; therefore, almost anything is possible and al-
most nothing happens. That is another way to describe a dream.

The Cultural Initiative can serve as an illustration.
The mere fact that it exists bears witness to the radical changes
that have occurred in the Soviet Union. But does it really ex-
ist? We have held meetings; we have made awards; we are ready to

publish our first annual report; but we have still not received our official permission to operate. Perhaps the most tangible evidence of our existence is the fact that a cooperative cafe serves tasty meals in the basement of the eighteenth century building we occupy.

The foundation is not unique in this respect. I listened to the head of the Institute for Personal Computers, Boris Naumov (who has since died of a heart attack), describe his grandiose plans for building millions of PCs for use in elementary schools and heard him complain, almost in the same breath, that he did not have the dollars to pay for 100 IBM ATs which he had a license to import. Since the foundation needed rubles, I offered the dollars; we made a deal there and then, but it took him a year to obtain permission to transfer rubles to the foundation.

The discrepancy between thought and reality is so great that something will have to give: either reality will have to change, or thought will have to be brought back to the realm of reality.

So far, movement has been largely confined to ideas. Relatively few people are actively involved, and most of their activity is reported in the media. They are so busy and so important that they are all courting heart attacks, especially as they have unhealthy diets and are used to sedentary lives. To protect themselves, they take long vacations and occasional sojourns in sanatoria, and this makes the rest of their schedule even more hectic. No wonder that so little is actually accomplished! To get anything done usually requires a push from

the highest places, because lower-level bureaucrats are either afraid to act or are actively opposed to changes; and few people dare to take matters into their own hands. Those who do emerge as leaders and soon find their way into the media.

The level of frustration is rising. People are demanding more as they see that less is happening. Yeltsin was only the first who went over the brink. There is a tendency towards increasingly radical thinking which bears disquieting similarities to the Prague Spring and the Solidarity period in Poland. But, in contrast to those episodes, there is no general agreement on the direction events ought to take. The intelligentsia is deeply divided. One can discern two major tendencies. One looks to the outside world, the other to the Russian past; or, more accurately, one embraces modernity, the other

yearns for traditional values which are themselves a strange mixture of paternalism and communalism. But this is an oversimplification: most people combine elements of the two tendencies in different and not necessarily consistent ways. [The most liberal member of the *Politburo*, Yakovlev, is highly critical of Western values, while the leading opponent of industrialization, Valerie Rasputin, listens to Western music on his hi-fi at home.] The net result is the increasing fragmentation of opinion which has reached such a point that many opinion leaders are no longer on speaking terms with each other.

What will all this lead to? It is easy to be pessimistic because the basic process is one of dissolution, and there is no internally consistent new design in sight which could replace the old order. The problems are seemingly insoluble; and the ex-

perience of Russian history teaches us that brief periods of reform are followed by long periods of repression. The line of least resistance leads from dissatisfaction to disorder until disorder reaches the point where the military is called upon to restore order. That is what happened in Poland when Jaruzelski took over. The man who calls upon the military could be Gorbachev himself or his successor.

But this prognosis disregards the creative energies that have been released by the dissolution of a repressive regime and fails to take into account the leadership abilities that Gorbachev has already demonstrated. Even if he does not have a comprehensive design, he does have a vision and he may be able to harness the forces he has unleashed.

One thing is certain: present conditions cannot last. The tension between thought and reality must be resolved one way or another. How it is resolved is of the utmost importance for all of mankind.

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The Western world is not confronted with a clear-cut choice between supporting or opposing Gorbachev. The choice would be clear-cut only if there were no contradictions between the internal transformation of the Soviet Union and its enduring geopolitical interests. As it is, both Gorbachev and the Western world must deal with those contradictions.

Fortunately, Gorbachev has a vision which, as we have seen, is much more coherent about the Soviet Union's place in the world than it is about internal political and economic reforms. How should the world respond?

The natural tendency is to take a wait-and-see attitude. After all, how can one make rational decisions until the contradictions have been resolved? But that is tantamount to waiting to see Gorbachev's vision disintegrate. It can be argued that the future of the Soviet Union is for the Soviet people to decide; but the argument has a hollow ring. If the leadership has decided to find a place for the Soviet Union in the community of nations, it is not a decision that can be carried out without the cooperation of the rest of the world. Gorbachev's initiative

demands a response; the lack of a response is a negative response.

This leaves the Western world in a quandary. There is a grave danger that different nations, guided by different leaders and different national interests, will adopt different responses and the unity of NATO, difficult enough to maintain in the face of a perceived threat, will disintegrate. The disintegration of NATO can then be perceived as a threat in its own right and that will further complicate matters.

Already, there are powerful voices in the United States in favor of a Pacific rim strategy. Both Secretary of State James Baker and Democratic Senator Bill Bradley have spoken of it, although it is difficult to see what "it" means except a

vague desire to imitate the Japanese and to distance the United States from Europe.

On the whole, Europe is responding more positively to Gorbachev's initiative than the United States, as witnessed by their willingness to extend credit and by the severe criticism from the United States which it has provoked. Politically, West Germany is the most committed, although economically Italy is at least as active as Germany, and Margaret Thatcher has shown great understanding and support for Gorbachev. Mitterand's France is relatively the most reserved, but basically also very constructive.

All this may change if the cost of greater rapprochement with the Soviet Union is estrangement from the United

States. People in Europe will start pulling in different directions. The country which is likely to remain most faithful to its "Ostpolitik" is West Germany, but the farther West Germany goes out on a limb, the greater resistance it is likely to encounter from France and Great Britain. As the new head of the Soviet Institute for Western Europe saw so well, a European house that does not include the United States is too small to accommodate the Soviet Union.

The choice is therefore almost exclusively in the hands of the United States. One superpower must decide how to respond to the other superpower which does not want to play the game any more. The decision goes to the heart of our national identity. Can we envisage ourselves as something other than a superpower? Can we envisage a world on which we do not seek to impose our

will? Can we accept decisions made by international organizations -- be it the United Nations or the International Monetary Fund -- which are not under our control? These are profound questions which require a profound rethinking. As I said at the beginning of this article, we do not seem ready for it.

Gorbachev's new thinking arose out of a profound crisis. We are also in a crisis, whose origins are intricately interconnected with our role as superpower. Simply put, we spend more than we earn, both as a country and as a government. The excess in spending almost exactly matches the increase in our military expenditures since President Reagan came to power. But the crisis is not acute and we are only dimly aware of it because we have a willing partner, Japan, which is happy to produce more than it consumes and to lend us the excess.

The partnership allows us to maintain our military power and it allows Japan to increase its economic and financial power. Everybody gets what he wants, but the outlook for the United States is not very encouraging. There are many examples in history where military power was sustained by exacting tributes, but there is no precedent for maintaining military hegemony on borrowed money.

If a Pacific rim strategy means the abandonment of Europe, it may help us with our budget deficit but it may also prevent the West from making a constructive response to Gorbachev's initiative. With the internal outlook in the Soviet Union so uncertain, the potential for saving on military expendi-

tures would be greatly reduced and the long-term effect would not be very different from a continuation of the *status quo*.

By contrast, if the United States maintains its presence (but not necessarily its troop levels) in Europe and the reduction in armaments takes place by mutual consent, it is likely to prove more enduring. Disarmament by treaty, which includes appropriate verification procedures, is difficult to reverse. The encroachment on our superpower status is also likely to be more severe exactly because the reduction is accomplished by mutual consent. That is why the rethinking is so necessary.

The fact is that our defense commitments far exceed our needs and our resources. They could be justified as long as we

had an opponent willing to play the same game. But now? Gorbachev is willing to disengage all through the world, from Angola to Cam Ranh Bay. How can we justify our continued presence in South Korea and the Philippines? Yet presumably that is what a Pacific rim strategy implies.

Consider the case of South Korea. We had to defend it against communist invasion at a considerable loss of American lives. But that was 35 years ago! We have continued to maintain a military presence ever since, and we are shocked to discover that the country is seething with anti-American sentiment. American troops are beyond the reach of Korean law and behave accordingly. The recent televised hearings about crimes of the previous military dictatorship have revealed considerable American complicity in the Kwansiu massacres. The country has

some 500,000 troops under arms and North Korea has lost the support of both China and the Soviet Union. From what conceivable threat are we protecting South Korea? Perhaps the threat of democracy, but it has reared its ugly head in spite of our presence.

Yet, what would happen if we pulled out of South Korea and all our other bases? Currently, practically all local conflicts are exploited, and contained, by superpower rivalry. If the superpowers withdraw, the conflicts will continue out of control. Even at the height of their influence, there were many conflicts that the superpowers were unable to contain. If their power wanes, local wars will proliferate. The world will need some pacifying influence to make it a safe place. The superpowers will have to be replaced by some kind of international or-

ganization. Gorbachev recognizes the need. Are we ready to accept an international authority that is not under our control? It would require a reshaping of our national identity.

Unfortunately, there are powerful forces that militate against such rethinking. President Eisenhower warned us against the military-industrial complex in his parting shot. It has an insidious nature: it permeates our economic and political life, the way business is run and the way in which it relates to government. It has become crucial to research and technological advance. Its main drive is self-preservation and it is very successful at it. President Carter came to Washington with ideas of zero-based budgeting; but he did not even try to apply it to the military. President Reagan wanted to disengage government from economic life; but military spending went the other way. By the

time of the last presidential election, our defense commitment was untouchable: all that could be discussed were the modalities of defense.

The line of least resistance favors a Pacific rim strategy and the continuation of our role as superpower. After all, it is a rather attractive role, it is supported by many vested interests, both at home and abroad, and the weakening of the Soviet Union will make it cheaper to maintain. The price we shall pay is the lost opportunity of a better world order, not to mention the continuation of our economic decline, albeit at a much reduced pace.

What this conclusion leaves out of account, once again, is the potential for leadership. It may come from President Bush

(unlikely story: he is an operator, not a visionary) or it may come from the outside; from a Western European leader like Margaret Thatcher or from Gorbachev himself. Since Gorbachev draws his inspiration from Western values, from the concept of Open Society, it has the potential to inspire us all, and the force of public opinion is not to be underestimated -- especially in peacetime.

Can the vision of Gorbachev create a better world? We must beware of a historical parallel. It would not be the first time that ideas emanating from the Soviet Union have exerted a powerful influence on thinking throughout the world; nor would it be the first time that worldwide support and interest played a crucial role in the history of the Soviet Union. On the previous occasion, the idealists were sadly duped and the creation of

the Stalinist state led to a perversion of the values of Western civilization.

We can prevent history from repeating itself by learning from it. The critical lesson of the history of the Soviet Union is the gap between ideas and reality. Once we recognize its existence, the quandary posed by the internal transformation of the Soviet Union resolves itself and the correct policy decisions follow almost automatically. The vision presented by Gorbachev -- of a Soviet Union as an open society, of a world without superpowers where peace is maintained by international cooperation -- is one thing; the reality of the Soviet Union is another. We may enthusiastically endorse the vision while remaining wary of the reality.