The Post-Communist Reader

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PART I: The Early Transition

Cellular Phones Fill Gap in Hungary

By ANTHONY RAMIREZ

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BUDAPEST -- In this bustling city on the Danube, entrepreneurism is on the rise, with 80,000 small businesses having been formed in the last two years.

But try to cajole customers, plan with partners or yell at recalcitrant suppliers over the telephone, and the chances are 6 out of 10 that the response will be silence. Hungary's phone system is so creaky that many phones are still hand-crank models from the 1920's, and the network simply cannot handle the volume of calls.

That is why cellular telephones that bypass the traditional networks have become something of a rage in this capital city. In the last two years, Westel Radiotelefon, the joint venture here of the state-owned carrier and U S West, the regional Bell operating company based Englewood, Colo., has signed up 12,000 subscribers for its cellular service.

Westel's customers talk on their cellular phones an average of 400 minutes a month, triple the average in Germany and more than four times the average in the United States.

In many ways, Westel could provide a model for introducing modern telecommunications into the formerly Communist Eastern Europe, putting in place a sought-after service before the Government has time to upgrade the existing land-line telephone network.

Dialing Instead of Pedaling

"We are providing running water in the middle of a thirsty desert," said Andras G. Sugar, Westel's managing director, an ebullient engineer with white hair and a tan, who bears a striking resemblance to the fashion designer Giorgio Armani. "We still have much to learn, but our customers are already almost putting a halo around our heads. Ah, that is good for business."

By the end of this year, Westel's cellular telephone coverage will extend to more than two-thirds of Hungary, up from one-third in 1991. That will allow many of the more than 10.5 million people in this country to get their first taste of personal phone service. Many villages have only one telephone, previously housed in the local police station and now -- post-Communism -- found in the church or post office.

In the countryside, more and more people are hearing on radio broadcasts the chirpy Westel advertising slogan, "Put down your bicycle! Use your Westel telephone!"

Technical Limits

But there are problems, too. Westel's network uses frequencies in the 450 megahertz range on the electromagnetic spectrum, because that was the only portion of the radio-frequency band not being used by the military. That frequency is incompatible with both the current analog and coming digital equipment of Western Europe and the United States.

And because of the limited size of Westel's network, it has a theoretical maximum of about 48,000 subscribers, or less than 5 percent of the 1 million subscribers of the regular phone network.

And within Hungary, while cellular telephones are highly reliable for calling other cellular telephone users, they have only as much luck as Hungary's regular phones -- a call-completion rate of 40 percent -- when calling the vast majority of homes, businesses and government offices.

What is more, Westel's cellular phones cost more than $2,500 to buy (triple the most expensive cellular phones in the United States, though about the cost of a regular phone in Hungary) and $1,000 to activate. That is in a country where the average laborer makes about $230 a month.

Of course, this is also a country where taxes are high, tax evasion is a popular sport, and the all-cash underground economy is Hungary's biggest growth industry. Many more people, in other

words, may be able to afford a cellular phone than the official wage data would indicate.

Sales of cellular phones and service will generate at least $50 million for Westel this year, up from $25 million last year, and the company is well on its way to profitability, despite high start-up costs. It has 220 employees and expects to have 10 sales offices nationwide by the end of the year.

Demand, no doubt, stems from a dilapidated phone network of 1 million regular phones, 400,000 of which are in Budapest. As in the former Soviet Union, the Communist Party wanted to keep phone service scarce and primitive to facilitate eavesdropping while crimping the flow of communication among citizens. The Party itself had good phone service, known as the "K" line (for the first letter of the word for "central" in Hungarian). The K line, however, was open to only 4,000 elite subscribers.

Today, as a result, there are only 2 telephone lines per 100 inhabitants in a country of more than 10 million people, one of the lowest levels of phone penetration in Eastern Europe. By comparsion, France has 50 lines for every 100 people and Sweden nearly 70 -- the highest rate in Europe.

"So now in Hungary today and especially Budapest," said Dr. Geza Gosztony, the wiry, intense chief adviser to the state-owned Hungarian Telecommunications Company, in an interview, "it is relatively easy for the top officers of concerns to talk to each other, but not to any normal people below them, the ones who do the actual work!"

As in other Eastern European countries, Hungary's economy is faltering because of the economic collapse of its principal trading partner, the former Soviet Union. Inflation is still high, currently about 25 percent, but down from 35 percent last year. Hungarians are feverishly trying to increase trade with their main Western trading partners, nearby Germany and Austria.

An improved phone service is essential to economic growth pursuit -- and the more phones the better for a company like Westel. There was much muttering among Hungarian entrepreneurs recently about a deal for a large Hungarian dairy cooperative that fell through because the potential purchasers, from Italy, were shocked to find there was no telephone or phone lines anywhere nearby. Hungary is so backward in terms of telephones that the country's telecommunications officials think the nation has the chance to scrap its antiquated system and leapfrog the current cellular and regular phone technology, once standards and technical approaches that are still being developed by international conferees are settled within the next five years.

An Extensive Investment Plan

Meanwhile, the Hungarian Government plans to spend 112 billion Hungarian forints, or about $1.7 billion at current exchange rates, from government funds and Western loans to modernize the telephone network. The amount constitutes a vast number of Hungarian forints in a country still burdened by $21 billion in foreign debt, the highest per capita of any country in Eastern Europe.

The network investment is badly needed however, for the introduction of advanced digital switches to replace 40-year-old electromechanical switches, the source of the abysmal call-completion rate. Hungary, therefore, is actively looking for European and American financial institutions for investments. "Are we looking for partners?" said Dr. Gosztony, the Hungarian Telecommunications official. "The door is always open."

Eastern Europe, Post Communism: Five Years Later -- A special report:

East Europe's Hard Path to New Day

By CRAIG R. WHITNEY

30 September 1994

BUDAPEST -- The sleek new international air terminal here is filled each day with tourists and business investors flashing passports at border guards who sit behind high-tech glass booths, watching as the travelers breeze past customs with a wave.

Only an hour's flying time to the east, at the dilapidated Borispol Airport in Kiev, the scene could not be more different, as weary passengers

line up to purchase a piece of paper entitling them to stand in another line to buy a visa. Then they wait in still a third line to appear before cell-like booths containing immigration inspectors trained by the Soviet Union's K.G.B., who then turn them out to face a gamut of customs forms and suitcase searches. The whole process routinely takes two hours, just like in the old Communist days.

Five years have passed since Communism disintegrated in Eastern Europe, when Hungary began dismantling the Iron Curtain on its Austrian border and Poland held its first free elections since World War II. Soon afterward, thousands of East Germans began streaming through the Berlin wall, Czechs and Slovaks massed in Prague's Wenceslas Square and forced their Communist leaders to resign, and Romanians rose up in armed rebellion against a brutal dictatorship.

During the next two years, Moscow's hold over the former Soviet Union weakened, until at the end of 1991 it was dissolved and its former constituent republics, like Ukraine, became independent.

But since the heady days in late 1989, the Iron Curtain has been replaced by a new and less visible divide between haves and have-nots in the formerly Communist world, with distinctly different visions of the future in the countries on either side. On one side are Hungary, Poland, and the Czech Republic, which clearly want to be in the Western camp, eager to join the community of capitalist Western democracies. With strong rates of economic growth and, more significantly, an almost palpable sense of self-confidence, all seem to be on a fast track to making it.

On the other side, Ukraine, Romania, and Bulgaria are not sure where their destinies lie, and seem stuck in a sort of post-Communist twilight zone, economically and politically far behind the Westernizers, falling farther behind with every passing year and maintaining some of the old suspicions of outsiders from the Communist era.

But even in the fast-track countries, there has been frustration and disappointment over the pace of change. A New York Times poll on hopes and attitudes conducted this summer in the Czech Republic, Hungary and Poland found that people were confronting their new freedom with some trepidation. Much of their reaction has to do with economic uncertainty.

Except for East Germany, which has been getting about $100 billion a year since reunification with West Germany in 1990, the prosperous West offered nothing like the Marshall Plan to help formerly Communist countries get started toward the market economy.

It also could not guarantee strategic stability while the region struggled with powerful and destructive forces of nationalism unleashed in Serbia, Bosnia, and outlying parts of the former Soviet Union after Communism collapsed.

And crime syndicates controlled by black marketeers with powerful former Communist functionaries behind them -- "the Mafia," in universal Eastern European usage -- sometimes seem to be a bigger threat to security than the now obsolete nuclear arsenals that criminals have recently been trying to plunder for profit.

But in the most advanced of the Western-oriented countries, good news mostly outweighs the bad. The last of a half-million Russian troops and their dependents finished pulling out of the areas they occupied for half a century in eastern Germany and all the Baltic states on Aug. 31.

Despite the confusion and considerable nostalgia for the stability and predictability of the old days, people in most of Eastern Europe are not rushing to go back to Communism. Even the reformed "Socialist" leaders who have come back to power in recent elections in Poland and Hungary say they are as determined as their predecessors to press for membership in the NATO alliance.

And they all remain determined to become members of the European Union by the end of the century.

"I don't think that's unrealistic," said George Kopits, the senior resident official of the International Monetary Fund in Budapest, "but they will have to work hard to get there. They're about midway through."

Slovakia, Slovenia and the Baltic states are only a little behind them. Even Russia is moving toward a market economy, though it may be many years

before it works, and President Boris N. Yeltsin was warmly welcomed by the leaders of major industrial democracies as a participant in this year's economic summit in Naples.

But in the countries that have not clearly cast their lot with the West, many of the economic structures, ways of thinking, and leadership groups that prevailed under Communism remain in place today, despite signs of change everywhere.

Bright signs and private shops have transformed neighborhoods that were gray, drab, and empty under Communism. From Tverskaya Boulevard in Moscow to the Nowy Swiat in Warsaw to Vaci Street here in Budapest, Benetton shops and Cartier boutiques glitter on shopping avenues where places like State Grocery No. 19 were once the biggest draws.

Off Vaci Street here, an Italian store now sells Western-made shoes for cash -- Hungarian forints, a sign that the local currency is gaining the confidence of consumers and foreign investors alike.

But off the Kreshchatik, the main street of the Ukrainian capital of Kiev, the temporary karbovanets coupons put into currency circulation as a symbol of independence from Russia have now become so worthless that people gather on the streets hoping to buy Russian rubles instead.

Traditional economic ties are pulling Ukraine away from the West and increasing its dependence on Russia, contrary to the nationalist dreams of independence.

And a lot of what passes for business in Kiev seems to revolve around taking advantage of cheap Communist-style Government loans -- what the Communists used to condemn as "speculation."

"I know exactly how to tread the line, because five years ago I was earning my living by putting people in jail," smiled Vadim V. Nesterenko, a slim and sardonic 32-year-old former detective turned importer-exporter.

His main market, he said, is Russia. "I get state funds to buy medical supplies and make the money work for me twice," he explained, smoking a Marlboro cigarette. "I use the money to buy fruits and vegetables here, sell them in Russia for more money and then buy the medical supplies there and bring them back to the customers here," he said.

"We have the same way of thinking as the Russians," he explained. "I can send a truckload of tomatoes to the Russian border, my driver talks with Russian customs and leaves behind a couple of bottles of vodka, and it's through in an hour. To get to Germany, we'd have to go through both Polish and German customs, filling out forms and going through inspections. By the time the fruit got to market, it'd be rotten."

The giant Soviet-style state-owned enterprises that used to dominate the Ukrainian economy still do, though most of them have been kept alive only by state credits that have now been cut off, forcing them to lay off workers and stop production. Industrial output has declined by 40 percent this year alone, according to Western economists. The country is divided politically, east to west and north to south, with a secessionist Russian movement in Crimea.

"Our country is now at the brink of catastrophe," warned Leonid D. Kuchma, a former director of the Yushmash rocket factory who was elected president of Ukraine in July. Ukraine's future, he said, would lie not only in integration with the West but also in re-establishing closer ties with Russia and what he called "the Euro-Asiatic area." At the Naples economic summit, leaders agreed to offer Ukraine up to $4 billion in aid if it finally started moving decisively toward a market economy, and lately Mr. Kuchma has been making noises about doing so, but the main problem is that Ukrainians are split about which way they really want to move.

The Transition Fear and Hardship In a New System

Even in countries that clearly know where they are headed, the Communist legacy has been harder to shake off than anyone thought it would be five years ago.

Across Eastern Europe, state-run economies have virtually collapsed. Unemployment, unknown

under Communism, is growing: to 16 percent in Poland, 12 percent in Hungary, 14 percent in Romania and Ukraine, and even close to 5 percent in the Czech Republic, which has yet to begin privatizing large state-run enterprises that have gone under or stopped producing in the other countries.

And everywhere, eastern leaders say they have been greatly disappointed by lack of support from the Western democracies.

"If you compare the current situation with our expectations in 1989-1990, I would say we are not satisfied, because we thought things would go faster," said the Polish Foreign Minister, Andrzej Olechowski, in an interview.

"If you press politicians in the West, they say yes, you can join us, at the turn of the century," he said, "but there is no agreement on a calendar to get there. Perhaps we were naive."

Polls conducted for The New York Times in the Czech Republic, Hungary, and Poland in July also showed that many ordinary people felt vulnerable and confused.

Overwhelming majorities said that a secure job was far more important to them now than the freedom to travel or the richness of consumer choice that they have enjoyed since Communism collapsed -- 73 percent in the Czech Republic, 86 percent in Hungary, 80 percent in Poland.

Only 12 percent of the Hungarians polled thought they were better off today than they were five years ago, compared with 18 percent of the Poles asked, and 32 percent of the Czechs.

These feelings may explain why Poles and Hungarians returned ex-Communist parties to power in elections in their countries this past year. "Five years ago, I could put money from my salary aside in savings," said Krzystof Prosowski, a 43-year-old steelworker at a plant outside Warsaw that lost nearly 2,000 jobs after an Italian company bought 51 percent of it. "Now, I live from paycheck to paycheck, but there's not much hope of finding another job under these conditions," he said.

But when asked how they saw their own future, more Czechs, Hungarians and Poles answered "generally optimistic" than "generally pessimistic." Except in Poland, the optimists also outnumbered those who thought their future was "uncertain" -- 56 to 32 percent in the Czech Republic, and 44 to 39 percent in Hungary.

In Poland, 36 percent said they were optimistic, 22 percent pessimistic and 42 percent uncertain.

Gallup Hungary Ltd. interviewed about 1,000 people for The New York Times in each of the three countries. The face-to-face polls in each country had a margin of sampling error of plus or minus 3 percentage points.

Disillusionment with the difficulty of transformation has also led recently to comebacks for formerly Communist parties in both Poland and Hungary, now called socialists. But they have changed more than just their names in five years.

During the cold war, the Communist parties of Eastern Europe professed loyalty to Moscow and let the Red Army enforce that allegiance in 1953, 1956 and 1968 in East Germany, Poland and Czechoslovakia. The new socialist leaders all fear Russian domination, and want quick membership in the NATO alliance to protect them from it.

And they say they are as dedicated to achieving a market economy as the conservatives they replaced. In Poland, however, the pace of privatization has slowed noticeably, and a recent decision to name Marian W. Zacharski, convicted in the United States of being a Communist spy before he was exchanged in 1986, as head of the Polish intelligence service caused consternation before the Government withdrew the nomination this summer.

The Hungarian coalition Government that took office under Prime Minister Gyula Horn this summer has warned that more painful adjustments lie ahead, with Government spending cuts on welfare programs that shelter people during the transition.

As his country's Communist Foreign Minister five summers earlier, Mr. Horn snipped the barbed wire marking the Iron Curtain at the Austro-Hungarian border, unleashing a flood of East

German refugees and starting a chain reaction all across Europe. Now, as Prime Minister, he says Hungary will press on with privatization.

"People didn't vote for us because they didn't want a market economy -- they thought we would be more professional and efficient in bringing it about," said Imre Szekeres, his deputy as party leader.

Trade European Markets Hard to Crack

In five years, the European Union has replaced the Soviet Union as Eastern Europe's largest trading partner, but the Western countries sell more than they buy from the east.

Polish exports to the European Union rose by 83.5 percent between 1989 and 1992, Czech and Slovak exports rose by 116 percent, and Hungary's by 54 percent, but their imports from the West rose even faster, giving them a combined trade deficit of $2.25 billion with Western Europe. Alfred Grosser, a French political scientist and expert on Germany, said that most Western European countries saw the easterners more as competitors than as long-lost compatriots. "We tell the Czechs and the Poles, 'Yes, we will help you,' but every time a ton of steel appears on our borders we try to keep it out," he said.

Eastern European officials complain that when their firms can produce goods more cheaply than Western competitors, Western European governments protect their industries by imposing tariffs or punitive quotas on the Eastern Europeans.

"I had to burn 20,000 cherry seedlings this spring, because there's no market for the fruit," said Janusz Nowak, a Polish farmer in Nasielsk. "In this area, there are black currant plantations where the farmers didn't even bother to pick last summer -- just let the fruit rot on the vine."

The reason, he said, was that traditional markets in the east had collapsed, but the European Union imposed such high minimum prices on imported fruit from Poland that farmers found themselves blocked from the Western market.

But this is slowly changing under the pressure of capitalist competition that has transformed the shelves of supermarkets all over the region. Eastern European consumers abandoned state brands for Western products like the Henkel company's "Persil" laundry detergent, but now the soap is made locally in plants in Hungary, Poland, the Czech Republic and Bulgaria.

"Sixty percent of the new food products on our markets three years ago were imported," said Marian Brzoska, a Polish agricultural official. "Now, they are produced here."

But, said Laszlo Bekesi, the Hungarian Finance Minister, Eastern European officials sometimes feel they are caught on a treadmill in dealing with the European Union. "Our aim is to catch up, but catching up is also the condition for joining," he joked.

Security West's Protection Proves Uncertain

The Western institutions that were created to deal with the Soviet threat during the cold war also seem to many Eastern Europeans to have been slow to respond to the new security challenge posed by instability and potential disorder to the east.

Both the European Union and NATO were unable to halt the war of Serb nationalist expansion in Bosnia and Croatia and NATO did not even convincingly threaten to use force until last February, when a bombing ultimatum proved effective in halting the Serb bombardment of Sarajevo. Wars in the Caucasus and Central Asia were left to the Russians to deal with.

Few Eastern Europeans believe that Serbia is a threat to them. But many of them do worry about Russia, particularly after a radical Russian nationalist, Vladimir V. Zhirinovsky, won nearly a quarter of the vote in last December's elections there. Poland, Hungary, the Czech Republic and Slovakia all want full membership in the NATO alliance to deter Russian adventurism, but the United States and its European allies held back on offering NATO guarantees to avoid offending the Russians.

Instead, NATO offered a temporizing plan called "Partnership for Peace" to all the formerly Communist countries, giving them in theory an

equal chance to improve their relations with NATO. Russia and 21 other countries accepted.

"The Partnership for Peace was invented because decision-makers wanted to avoid difficult decisions," said Mr. Olechowski, the Polish Foreign Minister. Poland still wants full membership, as does Hungary.

"In this region, either because of economic hardship or ethnic tensions, civil war could break out, or an extremist politician could get into power and become a military threat," said Defense Minister Gyorgy Keleti, acknowledging that it was Mr. Zhirinovsky he had in mind.

Both Hungarian and Polish officials interviewed for this article said that the withdrawal of the Red Army from Eastern Europe and the collapse of the Warsaw Pact had left their own national armed forces in a technologically backward state, and cut off from many of their former sources of supply.

"We don't even have a functioning air defense system at all," a Polish diplomat said. The tactics, standard procedures and logistics of both armies are all based on Soviet standards they would like to escape from, for strategic as well as political reasons.

Officials in both countries hope that closer association with NATO would be the first step toward building truly independent functional military establishments.

Ukraine has no such intention, according to close observers there. "We understand the Russians will never permit us to join," said Nikolai A. Kulinich, a Kiev political scientist. "And our military officers would never do anything to offend the Russians -- they think the same way, and they understand them too well."

Eastern Europe, Post Communism: Five Years Later -- A special report:

Fast and Slow Lanes on the Capitalist Road

7 October 1994

KONIN, Poland -- As Jan Rusin, a 43-year-old coal miner, sits in his wood-panelled living room admiring the fruits of his labor under Communism -- a television set, comfortable furniture, a shiny, modern kitchen -- he wonders why he is at home, jobless and dependent on welfare payments. Capitalism, he says, was supposed to bring him more, not less.

A few miles away in the heart of this industrial town, Elzbieta Leszczynska makes wedding dresses in the airy basement of her two-story home. Amid the swish of brocades and laces, and the clip of scissors and sewing machines, Ms. Leszczynska, one of Poland's new small entrepreneurs, runs a staff of 43 and sells glamorous gowns to boutiques around Poland. But, she, too, is not satisfied. Why can't she expand her business faster, she asks.

The stories are different, but the frustrating reality is the same: in Eastern Europe, capitalism can't be built overnight. And when it comes, it comes at a price few here expected.

Working habits and egalitarian attitudes drilled into minds by 40 years of enforced Communism remain deeply embedded five years after its collapse, making it difficult for people to work through the painful first stage of a conversion to a market economy.

Even adaptable people like Ms. Leszczynska, who is proving more successful than most, find unexpected difficulties. Members of her staff only want to work limited hours, limiting her growth.

Nonetheless, signs of sudden consumption stand out in once bleak landscapes. Foreign cars with Polish license plates roar down the decrepit Warsaw-Berlin road. In Budapest, beauticians sell expensive skin creams to nouveau riche women with $1,300 cellular telephones tucked in their pocketbooks. The highway outside Prague is dotted with new rest stops that peddle snacks and ice cream along with gasoline, just like in the West.

These three countries of the former Warsaw Pact -- Poland, Hungary and the Czech Republic -- have moved onto the fast track, economists say. More than half the people in these nations work in private business. Small manufacturers have emerged alongside cumbersome state factories. Scores of private banks have opened and fledgling

stock markets attract investors from home and abroad.

But many Poles, Czechs and Hungarians are worse off today than they were five years ago. Their societies have been divided into two classes: the envied few who, despite some rough-going, have profited from the change and a resentful majority upset at not being able to make it.

The Outlook A Longer Road To Prosperity

Economists now agree that it will take much longer than anticipated for these countries to catch up to the West. In countries where the memories of World War II capitalism still linger, the belief that the end of Communism would quickly transform Eastern Europe into Western Europe turned out to be false.

And in countries like Romania, Bulgaria and Slovakia -- the laggards in the economic reform process -- real progress is hard to find. Foreign investment is scant and inflation is high. So lethargic has been the advance of reform in Romania that analysts calculate that at the present pace it would take till 2035 before state industries enter private hands.

But even among Romania's more successful neighbors, the path to a market economy has been a rough one.

"No-one expected such declines of such magnitude," said Branko Milanovic, a senior economist at the World Bank's Transition Economics Division. "The first idea was that the economies would grow immediately because the systems were so inefficient."

Instead, it is now recognized, the economies all lacked sufficient private capital, modern equipment and managerial know-how for a quick turnaround. In the Czech Republic, for example, the Government has produced impressive macro-economic results: the lowest unemployment, the lowest inflation and a balanced budget. But in Prague, capital is so scarce and competition for it so intense that aspiring business people say they have to bribe bank officers to get a loan.

The Vienna Institute for Comparative Economic Studies, where analysts study Eastern Europe, concluded in a new assessment in July that it would be well into the next decade before the three fast-track countries could match the economic strength of even the less well-off countries in the European Union, like Spain.

"The mechanisms of the command economy were dismantled everywhere with surprising speed," said Peter Havlik, the institute's deputy director. "On the other hand, the formation of new institutions has turned out to be much more difficult, slower and more painful than most analysts had expected at the outset of reforms in 1990. It was thought that in five years they would reach German levels. But this is complete nonsense. Realistically there will be enormous differences between Eastern Europe and Western Europe for years to come."

Using what he called very optimistic assumptions -- 5 percent growth every year -- Mr. Havlik said it would be 2010 before the Czech Republic would reach the per capita gross domestic product of Spain. Poland would have only a little more than half Spain's per capita gross domestic product by then and Hungary about two-thirds.

Zbigniew Brzezinski, President Carter's national security adviser, is even more pessimistic. He estimates it will take Poland till the middle of the next century to catch up to Germany's per capita gross national product.

As these countries removed state subsidies from industries and laid off bloated work forces, there have been severe social costs: a drop in living standards, long-term unemployment and the emergence of stark poverty.

Poland, where a "shock therapy" economic policy of removing subsidies and making the currency convertible was slammed into action in 1989, is the first country to show growth. Even so, by the end of this year, Poland will be producing only 90 percent of its pre-1989 gross domestic product, according to the Vienna Institute.

In the Czech Republic, despite what many consider careful management, the economy will only start to grow again this year. In the last five years, the Czech economy has shrunk by 20 percent, the Institute says. And in Hungary, the

five-year drop in gross domestic product is forecast at 18 percent.

Everywhere real wages tumbled dramatically: In Poland, the buying power of wages has fallen by 28 percent since 1989; by 18 percent in the Czech Republic and by 16 percent in Hungary.

Societies accustomed to the notion that everyone should have equal economic standing are now riven by a sudden surge in poverty, a widening of the formerly narrow gulf between the poor and everyone else in what once had been an attempt at a classless society. About 15 percent of Poles live below the poverty line compared with a steady 5 to 10 percent in the 1980's, according to findings published in July by the World Bank.

Unemployment has emerged as a permanent legacy as private sectors fail to expand fast enough to suck up those laid off from state industries. In Poland, the unemployment rate stands at 15 percent and could, according to some forecasts, rise to 20 percent. Most troubling, case workers say, about 40 percent of the unemployed have been looking for work for more than a year. And in the Czech Republic, the very low 3.1 percent unemployment rate is bound to increase when the inevitable removal of subsidies happens.

Government-run shelters for the homeless in Budapest are filled nightly and crowds wait for the doors to open at 6 P.M.

"Twenty-three of us sleep in one room and it is absolutely soul-destroying," said Zoltan Kovacs, 44, a butcher who lost his shop in a family squabble, as he waited at a shelter.

Even in the Czech Republic, the Labor Department worries about the creation of an entrenched underclass, and a new profession, job counselor, has emerged. Eva Mic kova, a counselor in the mining town of Ostrava, have been sent to England to learn how to help the unemployed get jobs.

"People have to be taught to understand they must fight for themselves and can't rely on others," said Ms. Mickova, as she prepared a training session on self-assertiveness for a class of long-term unemployed that ranged from a 32-year-old single mother to a 52-year-old mechanic. In Ostrava, the proud slogan used to be: "I am a miner, who else is better?" Today, as miners are laid off, the heroic paintings in the lobby of Ostrava's Palace Hotel of workers hammering at underground coal look strangely out of place.

The Adjustment Class Divisions Are Deepening

Beyond the economic realities, many people are overwhelmed by the mental adjustments that have to be made. Poland's former Communist leader, Gen. Wojciech Jaruzelski, who has recently made a surprising comeback in public opinion polls, said: "The rising disparities between rich and poor are offensive in a society where everyone once lived equally. In the West, people respect success. Here it arouses suspicion."

Adapting to different values after 40 years of Communism -- initiative instead of passivity, stress on merit instead of party loyalty -- is proving a substantial constraint on economic development. A lack of laws that deal with such things as breach of contract adds to the problem.

"I have the feeling that the question of mentality is the real obstacle to change," said Rudolf Andorka, the rector of Budapest University. "Under Communism it used to be a sport to steal from the state. To steal from the state was a patriotic act."

To explore whether this attitude still held, the university's sociology department took a survey. "We asked the question: to achieve something in life do you have to break the rules?" Mr. Andorka said. "Thirty nine percent said yes, 39 percent partly agreed. That's rather high. In France I think it would be 10 percent and 10 percent."

The results prompted the university to introduce its first course on business ethics this year. "We're seeing because of all the dishonesty how much ethics are missing," Mr. Andorka said. "Half of the businessmen don't care how they get their money. They cheat on their partners. Businessmen don't trust each other. If they don't trust each other they have to use legal methods and go to the courts, which basically don't exist."

American Airlines says it has taken 18 months to train the ground staff at Warsaw airport to Western levels of low absenteeism, no drinking on the job and service with a smile. A concept that

was hard to get across, said Frank R. Van Zanden, an American Airlines manager, was the reason to be pleasant instead of surly to customers. "We had to explain again and again that passengers weren't doing us a favor by flying -- that the money passengers spent on tickets paid for staff salaries."

Jirina Siklova, a professor of sociology at Charles University in Prague, and a dissident who spent time in jail under the old Czech regime, put it most starkly. "We are experiencing cultural shock," she said in her book-lined apartment in central Prague. "New relationships among the social strata are just now forming. No one knows who will be poor tomorrow and who rich, and the new or revamped code of moral and real values has not yet been universally accepted."

Five years was too short a time for people to radically change their thinking, she said. "They have changed the content of their thought, but the form of thinking is the same. They would like someone else to make the decisions on their behalf."

As an example, she cites her daughter, 32, a doctor, who by Western standards should be excited at the prospect of moving out of an overcrowded state clinic and opening her first medical practice. Instead, her daughter is having second thoughts because she is overwhelmed by the prospect of taking a bank loan to pay for new medical equipment. Moreover, she is nervous about how she is going to act as the private employer of a nurse, Mrs. Siklova said.

Others have adapted with alacrity, instantly taking advantage of new opportunities from lowly positions. Stanislaw Stefaniak, 46, a fruit and vegetable stall owner in the Polish town of Szczecin, near the German border, worked on a collective farm.

"Under the socialist system I didn't have to exert myself," he said as he busily arranged his fresh produce to entice customers. "Now I work for myself although I don't know what the word rest means. This brings out the ambition in me. No one decides anything for me."

The Victims For Unemployed, A Grim Future

An industrial town with coal mines, an aluminum factory and a large electricity generating plant, Konin, 180 miles west of Warsaw, faces the problems of most of Poland's towns. Of the 400,000 people in Konin and the surrounding agricultural region, more than 130,000 receive welfare or unemployment assistance.

In the semi-rural areas of Konin, Elzbieta Sroczyniska, one of 23 case workers at the vastly expanded welfare office, says jobs are truly hard to find. Jan Rusin, the jobless coal miner who worked for 27 years until he was laid off a year ago, is a typical client. Mr. Rusin, the father of 10, fits the picture of poverty in Poland painted by the World Bank: he has few skills and a large family.

Mr. Rusin was laid off with thousands of others because the state could no longer afford the Communist policy of overstaffing the mines to provide jobs for everyone. At the same time, demand for coal has dropped as Poland switches to other energy sources.

But the reasons for the closing of his coal mine are almost unfathomable to Mr. Rusin. Under the Communists, life was secure and comfortable. Ten years ago, Mr. Rusin was well enough off to build a three-room house.

A soft-spoken man, Mr. Rusin says he can't find a regular salaried job, partly because he lives in a small village and it is expensive to travel to look for work. A bus company, where he worked before the mines, has a surfeit of drivers because the old buses broke down and haven't been replaced. He takes casual day-labor jobs when he can get them.

"I meet most of my old colleagues at the unemloyment office," he said. "I never thought there'd be such unemployment. All the years before 1989 were great. We didn't have to worry about a job."

In contrast, Mrs. Leszczynska's wedding-dress factory here is a thriving example of the more than two million new businesses that opened in Poland after 1989.

It is these enterprises that have provided the engine for most of Poland's economic growth in the past two years. Mrs. Lesz czynska employs 43

machinists and cutters in a labyrinth of rooms in the basement of her home. She now finds it hard to keep up with the influx of orders from stores around Poland for her intricately designed gowns. Using a $5,000 interest-free loan provided by the Polish Government in 1990 as part of a program to help small businesses, Mrs. Leszczynska bought industrial sewing machines and hired staff. She avoided borrowing from any of the 13 local banks, which charge astronomical interest rates, by arranging credit with her foreign fabric suppliers. Mrs. Leszczynska, who expects to take in $500,000 this year, is building a full-fledged factory that she hopes will be financed by orders from Germany.

But Mrs. Leszczynska is frustrated that the German Government has put a quota on the number of dresses she can sell in Germany. "Can you imagine, even a quota on wedding dresses," she said.

Now she faces the problem familiar to many Western business executives. "I can afford to take a vacation, but should I take one?" she wondered as she showed off glamorous beaded dresses and made plans for the opening of her second retail store. "I can't afford the time. I have to prepare for the season."

The Winners A Fast Track To Affluence

In the rough-and-tumble capitalism of Hungary and Poland, more seasoned business people than Mrs. Leszczynska have profited in bigger ways by converting their Communist political connections into business clout.

In the Czech Republic the disparities are less: "We have always been more of an egalitarian society," said Mrs. Siklova, the sociology professor in Prague.

In Poland, the "old boy network" organized bank licenses for friends, said Andrzej Wrobleski, the editor of Gazeta Bankowa, a financial weekly whose circulation soared last year to 40,000 because of Warsaw's bubbling stock exchange. For example, the deputy chairman of planning in the last Communist Government, Frank Gaik, set up Prosper Bank which, along with a number of other small private banks, was recently bailed out by the Polish Government. A former Polish Minister of Finance, Marian Krzak, won a license to open the Globe Bank. "At that time you only needed $500,000 for funding capital to start a bank," said Mr. Krzak, who is also chairman of Poland's Bank Association.

Irregularities were to be expected in a "period of brutal capitalism," said a former Minister for Business Affairs in the last Polish government, Zbigniew Eysmont. "About 75 percent of businessmen have done it the legal way," said Mr. Eysmont, who owns a lighting plant.

But capitalism, rough and tumble or otherwise, has not yet replaced the deadening hand of an economy like Romania's, where government reluctance to change and the inability to adapt to new systems can be seen in the most basic ways.

In contrast to the privately owned retail chains and full service stores that give countries like Hungary a patina of a Western style economy, Bucharest is filled with kiosks -- small booths with counters.

Few of them are privately owned, although the more successful renters have made the kiosks more attractive with bigger windows and imported goods.

At the end of July, the Government presented a complicated mass privatization plan that officials said would help push the economy into private hands. The idea was to give all Romanians over the age of 18 a share certificate in one of the 3,000 state enterprises. But the plan has been deemed unworkable by the World Bank. By allowing only one share per person, the plan is seen as a maneuver to dilute ownership and stop large-scale capital accumulation.

In Hungary, the future is far more vivid. One of Eastern Europe's most successful businessmen, Gabor Varszegi, built his empire without ties to the Communists. He runs Fotex, the region's biggest private retailing, manufacturing and distribution group, with 7,000 employees and an expected gross income of $300 million this year. The company's shares trade over the counter in New York and Vienna.

A rock musician in Hungary in the 1970's and a diamond trader in the United States in the early 1980's, Mr. Varszegi goes out of his way to hire

people who are too young to have been involved with the Communists. His 450 stores sell optical and photo goods, electronics, furniture, glass and china. Much of what he sells is manufactured in factories acquired since 1989.

In these fledgling market economies, Mr. Varszegi is one of a kind. But this will change, sooner than the economists think, he said.

"It never happened in the history of the world that a country has had to change the total culture of its economy so fast," he said. "In the next one or two years, there will not be one or two companies as successful as Fotex but many more."

In Eastern Europe, A New Generation Is Shifting Priorities

By DONALD G. McNEIL Jr.

21 November 1999

BUCHAREST, Romania -- In the Vox Maris discotheque, Graziela Tache extended one leg even farther out from under her tiny slit skirt. "You know what these boots cost?" she asked. "They were $250. You know what that waitress earns? Maybe $100 a month. There are two levels in society."

Ms. Tache, all of 19, is one of the young in the former Communist countries of Central and Eastern Europe who have made it in the post-Communist decade.

She earned her money the new-fashioned way: capitalism, and connections. She did well in her three years of stylist school and snagged the wealthy boyfriend seen by many young women in the post-Communist world as a prerequisite for success. With his help, she opened her own salon and has five women working for her.

"When my mother sees me spend so much, she does like this," said Ms. Tache, clawing the perfectly blended base makeup on her cheeks. "But I am the big happiness in my family. My parents say they would rather have a lot in the refrigerator than to buy clothes, but I don't get this mentality."

Since the fall of Communism 10 years ago, a generation gap has opened up across this part of Europe. Those who came of age in this new era have little or no memory of the old and little or no ability to conjure up their parents' childhood in the red neckerchiefs of Communist Pioneers, the old excitement of trying to dial past the jamming to hear Radio Free Europe, or the tedium of studying an artificial history from books larded with wooden language and airbrushed portraits of unknown but all-powerful political leaders.

Their parents, conversely, struggle to understand the new vista of choice and -- for the fortunate -- the material joys that eluded them but are open to their children. Many of the older generation pine for the vanished sureties of Communism. They are in shock, lost in a world that values attributes and accouterments vastly different from those they were raised to appreciate; their children listen to hip-hop, exchange e-mail with foreigners and compare Nike sneakers and possibly even Alpine vacations.

"I think 80 percent of the people would give up democracy to have the secure life they had before," said Marian Stanescu, 39, sipping beer at a roadside stall in impoverished rural Romania, where a third of the country's 22 million people live on less than $2 a day and the national government is going deeper into debt this winter to buy heating oil for the urban poor.

Under Communism, this poverty was masked under the rigid, meager securities of uniformity. Now, the gap yawns between men like Mr. Stanescu and Alin Teodorescu, a former statistician whose daughter attends medical school in Texas on the profits from his private company in Bucharest.

In the old days, Mr. Stanescu conceded, "There were restrictions: no passport, you couldn't go anywhere. But there was respect for labor. The average salary had purchasing power. My father was a steel-mill foreman his whole life and retired with a double pension; I just visited him, and he had disconnected his phone, his lifeline to the family. He can't pay for it any more."

In the Communist days, the warmth of those kinds of family ties, of good friendships cemented by endless chats and much alcohol, by political jokes

told around kitchen tables, helped compensate for the often drab rhythm of daily life. Usually, it was only in this private sphere that anyone was forced to assume responsibility for actions, or was judged as an individual.
Outside the home, many decisions lay with the Communist Party; wangling one's way past the absurdities thrown up by a system that tried to plan everything became a way of life; the opaque and corrupt operation of power and a system that came to depend largely on lip service rewarded deviousness, not honesty.

Cynicism Has Spawned Ultimate 'Me' Culture

The young of these nations inherited the ruins of that failed ideology. Over time, Communism had changed the way that its citizens thought and operated -- so powerfully, in fact, that even the common culture of Germany cannot overcome the many divisions between its formally reunited citizens in East and West.

The cynicism and deceit of the old system -- many of whose foremost families have also become prominent, and rich, in the Wild East of post-Communism -- have combined with the new material opportunities to create, in many of today's East European young, the ultimate "me" generation.

In the chase for the good life, the self is paramount, said Janos Balazs, a Hungarian sociologist who said his surveys of values had found a huge upsurge of selfishness in the young, manifested in many ways: rude driving in the powerful cars now available, rising juvenile crime and the notion that honesty with friends is less important than it once was.

"For us, the middle-aged generation, solidarity at the workplace was once very important," Professor Balazs said. "Nowadays, everybody is secretive about their extra income, about their problems. Recently, for economic reasons, my university laid off a female professor who was perfectly good. No one stood by her. For us, this is unusual. For the youth, it's normal. They are more self-dependent."

This lack of empathy, combined with the chaotic and often corrupt politics of this part of Europe, feeds disdain for the kind of political and social engagement on which democracy thrives.

"I'm bored by politics, I'm disgusted by them, I don't want to get involved," said Svetoslav Velkov, 20, a business student in Sofia, Bulgaria, who -- along with many other young people in the former Communist world -- turned down his first chance to vote, in a mayoral election held this year.

His mother, Lydia, a 41-year-old history professor, was pained. "We argued," she said. "I told him that democracy requires participation and support. He was only 10 when the end of Communism was announced, and in fact it began to decay five years earlier. He takes democracy for granted. Because it was always around him, he thinks it will be there forever."

Similarly, Andras Bajkor, 17, a high-school student fluent in English who wore an American lumberjack jacket at Morrison's Music Pub, a Budapest youth bar, has little idea, he said, how to relate to two of his father's most formative experiences: poverty, and the suppression of his Jewish heritage. His father learned he was Jewish when he was 16, and then by accident. Having hidden from the Nazis and fearing another outbreak of anti-Semitism, Mr. Bajkor's grandparents simply never told their son.

In the new democratic Hungary, the younger Mr. Bajkor is proud to be Jewish and bothered that one of his friends had converted to Christianity as a child because of taunts. But he admitted that, like most of his peers, Christian and Jewish, he is not religious.

His father's memories of poverty seem to come from another world.

"My dad lived on the 10th floor, and even if he had luggage, he would walk up, because you had to pay the elevator guy," he said. "He would buy bread with the money he saved. Sometimes, he went to the neighbors to ask for bread.

"It comes back to him," he continued, "when we are eating now. He says he'd like to cry, because he is so lucky that we can eat meat."

His parents, he said, sometimes complain that families are less close nowadays. "When I get a present from my parents, it's normal," he said. "But they don't see as much happiness as in the old times. In those days, for anything, for the most little thing, even a Matchbox car for Christmas, the children would stay with their parents for hours and hours, thanking them for the present."

Video Games Replace A Good Tolstoy Novel

This feeling that something in the social fabric has been lost is widespread among the middle-aged of the post-Communist world, and even more prevalent among their parents -- today's grandparents -- who grew up in the devastation of World War II and were simply glad to have survived and to have a system that provided for them.

One of the most common complaints of parents and grandparents about their offspring is that the young no longer read. In the boring old Communist days, a Western book, a good Tolstoy novel or -- more rarely -- a piece of samizdat, forbidden literature hand-typed on thin sheets of paper and passed around to avoid the censor, were a welcome relief from everyday life, a window on a world that could be conjured only in the imagination. Now, they grouse, their children play mindless video games and watch movies like "Die Hard," and talk soccer, not politics.

Of course, families can still be close. Children are not the only ones to have profited from the new freedoms; parents, too, have parlayed talents suppressed under Communism into new-found prosperity -- although the experience can vary widely: a doctor in a state-run hospital can earn, without the near-ubiquitous bribes on the side, only $40 a month, much as she did a decade ago. A dentist who starts a private practice can make $65,000 a year.

Ten years ago, as a statistician, Mr. Teodorescu, now the Bucharest businessman, earned half the salary of his neighbor, a tire-plant worker, because the state, which set salaries, lionized manual labor. Both suffered because their state-owned apartments were heated only four hours a day, and food and medicine were scarce.

Mr. Teodorescu had another problem, for a researcher: the state restricted access even to the public library.

Now his neighbor is out of work because his inefficient plant was closed; he tried to get a job as a policeman, "but even they want young men who can speak English," Mr. Teodorescu said.

Mr. Teodorescu has a daughter going to medical school in Texas; she and her husband cannot afford the tuition, so Mr. Teodorescu is paying it. He can manage it because his profitable market research firm was, he says, the first Romanian company to go public.

"I was at a conference of researchers the other day," he said. "And they were all in the same crazy situation -- Romanians sending money to America for children in school. I calculated that, among us, we were sending America $1 million. I said 'Guys, for $1 million, we could start a nice small university here.' But they didn't want it."

His daughter, like many other young Romanians, has emigrated knowing there is not enough work. In his father's generation, many Romanians are miserable on tiny pensions, although a lucky few are getting back buildings or other property seized by the Communists 50 years ago.

Mr. Teodorescu himself is satisfied, he said, because he retooled himself to cope with changing times.

Nikolai Milev, 50, has also made it. He is chief of research at the Bulgarian state gas company. Asked what his 14-year-old son, Nikolai Jr., owns that he did not have at that age, Mr. Milev started naming almost everything he had ever wanted.

A tape recorder was at the top of his list, he said. He could listen to the Beatles, the Rolling Stones and Cream on Radio Luxembourg and Radio Beirut, but could not buy their albums, so there was no way to take their music to parties. The only recorder available in the shops, an East German model, would have cost his father two months' salary.

"Now he has several," he said of his son. "Last month we changed his Walkman for a new model." His son also has a 21-gear mountain bike.

He did not realize there was a time when bikes had only one gear, and his father would work as a porter in a brewery for two months to earn the price of a Russian-made one.

On Sexuality, the Gap Is Clearly Drawn

For the young, particularly the women, of these countries, who mostly can only dream of the kind of equality and opportunity achieved in recent decades by their Western sisters, sex is one area in which the generation gap is most tangible.

As in the old Communist days, there is no behavior homogenous to Eastern Europe, whose countries have richly varied histories and took different paths to Communism, as now to capitalism.

In sexual relations, for instance, Poland had more liberal abortion laws under Communism than in the present, where the Roman Catholic Church wields enormous influence. In the old days, urban Albanian teenagers put the concrete bunkers left littered over their land by the paranoia of the dictator Enver Hoxha to use for sexual trysts; today, those bunkers are more likely to be inhabited by the very poor, who have migrated from the mountains of northern Albania seeking something better than subsistence.

In Hungary now, most students said they receive regular sex education; those in Bulgaria said they have had none.

After pausing to think about the greatest difference between her mother and herself, Reka Mihola, 20, a law student leaving a University of Budapest disco night with her boyfriend, asked: "Can I tell you? It's personal. In their day, you didn't go to sleep with a boy the first time. But now it's rather accepted. My mother can accept it, but it was hard for her the first time. She asked us only, 'Was the bed too small for you?' "

In the center of Bucharest, no such gap seems to divide Georgiana Marin, 17, and her mother, Dorina, 44.

They remember huddling together behind a bed when a bullet smashed their apartment window during the chaotic street-fighting that followed the overthrow of the dictator Nicolae Ceausescu 10 years ago.

In a sense, they still huddle together; they are matched even in a certain naivete. Both are afraid of drugs rumored to be coming into Georgiana's high school -- particularly marijuana, which they both have heard is injected by needle and which, Georgiana says she has heard, "leads to harder things."

Both are disgusted by the huge percentage of Georgiana's classmates who smoke. Both are bothered that parents are now so indifferent or busy that one of Georgiana's classmates is repeating sophomore year without her parents realizing it -- which would have been unthinkable under Communism, Dorina said, because the principal would have called them repeatedly.

Both are glad that doctors visit the school to talk about birth control. When Dorina was young, abortion was the primary means to prevent unwanted births. In 1968, Mr. Ceausescu, obsessed with having a larger Romanian population, outlawed it; the birthrate quickly doubled. In 1989, those 21-year-olds swamped the labor force.

In one of the ironies of history that abound in these countries, it was, among other things, the anger of these young, underemployed people that led to the routing of Mr. Ceausescu, who was executed only days after his fall from power.

"In my day," Dorina said, "people were ashamed to talk about sex. Now, some shameless teenagers brag about it in front of their parents. I'd be hurt if she did that, but if my daughter wants to have a sex life, she can. I'm glad Romania woke up to a world in which virginity is not obligatory."

PART II: The European Union Era

Western Investment Provides A Bonanza for East Europe

By ALAN COWELL

22 February 2003

BUDAPEST, Feb. 21 -- As Europe divides politically over war in Iraq, a different campaign is shaping in places like this, once held in thrall by the Soviet Union. Put simply, it is a battle to redraw a continent's economic frontiers, and it is cast, like the rift over Iraq, as a collision of old and new.

Last year alone, foreign investors poured a record $30 billion into Eastern European economies, which many American executives see as hungrier and more ready for innovation than those in the West. Two-thirds of the total went to nations set to join the European Union by June 2004, according to the Vienna-based Institute for International Economic Studies.

The calculations are simple enough. The slow-moving economies of Western Europe, particularly in France and Germany, are too hidebound and cosseted to pine for growth. The changing economies of Eastern Europe, by contrast, can only expand as they are drawn into the single market of the European Union.

"Western Europe is lagging and Eastern Europe is where the opportunities for growth are," said Christopher J. Navetta, head of an American steel plant in Kosice, Slovakia.

At corporations like the General Electric division in Budapest, or Mr. Navetta's U.S. Steel plant in Slovakia, executives like to say that people here are more eager to turn to new ways than in other parts of Europe.

"You give people an opportunity to be freethinkers, and they get it," said Mr. Navetta. At General Electric, one of the first and biggest American investors in post-Communist Eastern Europe, Istvan Szini, who oversees G.E.'s $1.1 billion investment in Hungary, recalled a decision last year on setting up a new plant that required workers to speak at least two languages other than their own. What swung the choice in favor of Budapest, he said, was "the willingness of the Hungarian work force to learn and further develop themselves."

However, this European expansion is anything but smooth. In Hungary, for instance, American companies including I.B.M. scaled back last year because of the global slowdown, and some relocated assembly lines to China.

Since 1990, about one-third of the $25 billion invested by foreigners in Hungary has come from the United States. But America has slipped from Eastern Europe's biggest foreign investor in the 1990's to third place behind Germany and the Netherlands.

Nonetheless, countries like Hungary, Poland or Slovakia could still provide a valuable toehold for American and other non-European investors as Europe unites and expands to stretch from Ireland's Atlantic coast to the borders of Russia.

The fusion of West and East will "enrich Europe," said Hubert Warsmann, the Budapest representative of the European Bank for Reconstruction and Development, a development agency. "It adds new opportunities. It's not a zero-sum game where you are taking from one to give to another."

American companies investing here, said Peter Hegedus, the head of the American Chamber of Commerce, will have a base in a market of some 450 million people, drawing on a mix of low costs and high skills backed by government incentives.

As the fledgling capitalist economies of Eastern Europe expand and aspire to the standards of Western Europe, however, there is a downside. A strong local currency has made Hungary less attractive. In addition, Hungary's national wage bill soared by 11 percent last year because of pay increases, ending the perception of Eastern Europe as a bargain basement for low-cost labor. The average monthly wage is $500 -- far lower than in Western Europe or the United States, but far higher than it was not so long ago in Eastern Europe.

The European Union has put a halt to some of the big tax breaks enjoyed by foreign investors over

the last decade. New bureaucratic rules could prove costly. Just this week, a newspaper reported that one-third of Hungary's 1,870 outdoor swimming pools might be drained and closed because their water circulation plants do not conform to European Union standards.

And, despite their vaunted flexibility, workers in many parts of Eastern Europe are still far less productive than those in Western Europe.

Studies by labor unions here say it will take 10 to 20 years for even a relatively developed nation like Hungary to catch up to the living standards of Western Europe.

Meanwhile, growth in the new European Union member nations could run at twice the continental average of around 2 percent, and the European Union itself will pour some $40 billion into its 10 new members between 2004 and 2006 to improve roads and other infrastructure.

"One of the attractions of coming into Central Europe is that you are looking at another 10 or 20 years of solid growth," said Mr. Warsmann of the European Bank.

That is the kind of opening companies saw as the Berlin Wall fell. General Electric swiftly took over the Tungsram state light bulb factory here to begin building a local empire that now spans seven different businesses and employs 14,000 people.

German companies, building on centuries of trade to the east, spotted opportunities to offset their own record-setting wage levels at home. Robert Bosch, an auto-parts company based in Stuttgart, Germany, announced last year that it would move its production of engine starters to Miskolc, Hungary, where labor costs are less than one-sixth of the $26 an hour earned by workers in Germany. Laundry from Berlin's five-star hotels is reportedly sent each day to be cleaned in low-cost Poland.

The list of big foreign investors is long: Volkswagen bought the Skoda car company in the Czech Republic, which topped the list last year as the favorite destination for foreign investment with $8 billion. Continental Tire bought the Czech tire maker Barum. Ford bought an auto-parts plant there. U.S. Steel is now considering expansion in Poland, where it has bid for Poland's state-owned, multibillion-dollar-a-year steel industry. G.E. ranks as the second biggest foreign company in Hungary after Deutsche Telekom.

"There's a certain dynamism here that you don't see in more mature economies," said a Western diplomat. "In that sense they are new Europe, and they are really struggling to get their heads round how they'll be old Europe in a regulatory sense and still catch up."

European Union Prepares To Add 10 Nations in 2004

By PAUL MELLER

10 October 2002

BRUSSELS -- The European Union took a significant step toward unifying the Continent today when its executive body announced that 10 countries, mostly from the former Communist bloc in the eastern half of Europe, are set to become members in 2004.

The European Commission said negotiations with the 10 should wrap up by the end of this year, in time for a historic unification of the Continent in 2004.

"Thirteen years ago, Berlin was still divided by a wall of shame," the commission president, Romano Prodi of Italy, said. "The wall has fallen. Our common destiny is to build our future together."

The 10 are Poland, Hungary, Czech Republic, Slovakia, Slovenia, Estonia, Lithuania, Latvia, Malta and Cyprus.

No timetable was established for talks on Turkey's accession to the organization. The commission said the Turkish government did not yet meet the political criteria for membership, pointing to the country's poor record on human rights issues.

However, Bulgaria and Romania may join in 2007, the commission said in its annual report on the growth process. It granted Bulgaria the status

of "functioning market economy" and said Romania was moving toward that goal.

But despite the grand statements, the European Union's expansion could be stopped in its tracks if Ireland, one of 15 members, votes against a new referendum later this month on a treaty that lays out how the European Union will function after it has enlarged.

The commissioner in charge of the organization's enlargement, Gunter Verheugen, said another Irish no vote could scuttle the expansion project. Irish voters already rejected the treaty in June 2001.

According to a telephone poll conducted today, an increasing number of Irish voters are likely to vote yes. The percentage of supportive voters jumped to 44 percent, from 29 percent a month ago, according to the survey conducted by Millward Brown IMS, a polling company, while the no vote inched up to 22 percent from 19 percent. There was also a sharp drop in the percentage of undecided voters.

Some candidate countries fear that an Irish rejection might encourage doubters from other European Union countries. Doubters in France, for instance, are concerned that in a European Union with almost double the current membership, French influence might be diluted, and beneficial resources diverted from the French economy.

"Some member countries are not interested in a quick enlargement and will use an Irish no vote as a pretext to delay," said Andris Kesteris, Latvia's chiefEuropean Union negotiator.

Mr. Prodi called today for an information campaign throughout the European Union to overcome hostility to enlargement and spell out what was at stake if enlargement failed.

He said that if the countries of Central and Eastern Europe did not join, that part of the Continent could fall victim to the kind of nationalism that destroyed Yugoslavia.

"Enlargement is our political masterpiece because it will allow us to avoid all this," Mr. Prodi said.

The final decision to enlarge the European Union will be made by its 15 heads of state in Copenhagen in December. Member states remain divided on how much aid to grant farmers and poor regions in the candidate countries.

Tough last-stage talks on how much to help the poorer East European countries after enlargement will intensify the countdown to the Copenhagen meeting. Some candidates feel they are being offered second-class membership conditions.

"We must be prepared for the fact that neither side will be able to fully obtain what it wants," said President Aleksander Kwasniewski of Poland, "so both sides must meet at a point where a compromise will be in the interest of both sides."

In Vast Expansion of the European Union, Pluses but Also Perils Lie Ahead

By IAN FISHER

13 December 2002

PRAGUE, Dec. 12 -- No one questions that this is a historic moment: Not quite all of Europe, but most of it from the Atlantic Ocean to the Russian border, is all but certain to agree this week in Copenhagen to fulfill a decades-long dream and fuse itself into a single entity in the name of peace and prosperity.

The trouble is that few people -- either in the 15 nations already in the European Union or in the 10 others being invited to join by 2004 -- are entirely sure this is a good thing.

"It depends what you mean by good," said Charles Gati, professor of European studies at the School of Advanced International Studies at Johns Hopkins. "If your ideal objective is to see Europe as a united entity, that is good for peace and stability, then this is an extraordinary move."

"If you look at it from a short-term perspective," he added, "there will be serious problems."

The rubble from the Berlin Wall fell 13 years ago in huge piles of hope. But the reality is proving, as ever, more complicated. The current, relatively wealthy members of the European Union are

facing fears of being overwhelmed by new members in the east that are far poorer, and that may send waves of immigrants westward, taking jobs and creating new pressures on economies that are, at the moment, far from robust.

While the leaders of the 10 prospective new members -- most from the former Soviet bloc -- largely support the union, many of their own people fear becoming second-class citizens in a club they have little control over. Joining the European Union is less a romantic aspiration of the excluded, but a hard-nosed evaluation of benefit versus cost.

In last-minute negotiations today, those tensions rose to the top as Poland, the largest of the prospective countries and a potential powerhouse in a new European Union, continued to hold out for more subsidies to its farmers and aid to its government.

Poland's bottom-line complaint is the same, merely louder, that many other candidate countries have: that what they call harsh requirements for entry essentially relegates them to a lower tier of Europe.

"The unusually difficult conditions dictated to us means that accession to the European Union, maybe not generally, but immediately, may be in doubt," said Lech Kaczynski, the newly elected mayor of the capital, Warsaw, who campaigned with a heavy helping of Euroskepticism.

Few experts believe that the summit meeting will fail, predicting that the final knots will be eased by Friday or Saturday. At the same time, though, the union's commissioner for enlargement, Gunter Verheugen, warned today on German television that it was "now or never" for the planned expansion. "If we don't succeed now, it will become more difficult in the future," he said.

John Palmer, political director of the European Policy Center, a research organization in Brussels, said last-minute bumps always accompanied expansions of the union. It is not surprising, he said, given the huge ambitions of this project -- to swallow in one gulp Poland, the Czech Republic, Slovakia, Hungary, Slovenia, Estonia, Latvia, Lithuania, Malta and Cyprus.

"I genuinely do think it's historic," he said. "This is the de facto unification of Europe under conditions of democracy and the rule of law. It does finally bury any prospect of war in Europe."

The 15 members of the European Union are preparing to take in 75 million more people, almost half of them in Poland. Many of those 10 countries have made enormous strides since then: Prague, the Czech capital, is now to the eye quintessentially Western European. Poland is busily expanding its roads and business culture. Tiny Slovenia is quietly and industriously pulling itself to the top of the heap, as the rest of the former Yugoslavia grapples with the dislocations of war and corruption.

Still, the countries are largely poor. The second richest, the Czech Republic, has an average gross domestic product of $8,900 per capita, less than a third of its neighbor, Germany. Slovakia, once half of Czechoslovakia, has a G.D.P. per head of only $4,900. Corruption remains endemic, Soviet-style bureaucracy crushing, the infrastructure lacking, commitment to Western-style democracy often questioned.

Part of the theory of accepting new members is that they will more quickly approach Western European standards -- as Greece, Spain, Portugal and Ireland have done.

But more grandly there is the idea, half a century after the last terrible war in Europe, of expanding what union bureaucrats call the "zone" of security and prosperity and thus prevent another war.

The potential new members have a more layered view. On one hand, many felt cheated living under Communism for 40 years and see Europe as their rightful place. Some simply see no option other than the European Union.

"There is no alternative," said Elemer Hankiss, a political scientist in Hungary. "You can join Ukraine or Kazakhstan or the union. The union is not the Garden of Eden, but certainly it's a better option than the other one."

At the same time, many in Eastern Europe -- ruled for centuries by Soviets, Austrians and Ottomans -- fear another empire where the center of power is

far away. Even the benefits of joining may not be felt for many years.

Many prospective members, and especially Poland, are also angry about what they see as strict conditions for joining, giving initially smaller subsidies to farmers compared to those already in the union and delays for seven years the right to move and work inside the union.

"You don't want countries getting in that are angry, or unnecessarily angry," said Milada Anna Vachudova, a professor at the University of North Carolina at Chapel Hill. "The population is going to be much more emotional and short-term about their views of E.U. membership."

The big test will come next year, when the applicant countries hold referendums on whether to join. Public opinion polls show most people support joining, but public education on the issue is low.

In all the internal European debate about the expansion, an often overlooked issue is how it will affect the United States -- and many experts are slowly concluding that it is very much in America's interests. For one, they say, a Europe with so many more members will be better able to shoulder military obligations, like peacekeeping in the Balkans.

But it also has the potential for diluting power from Western Europe, which has largely grown more hostile to the United States, in favor of Eastern European countries that have long viewed America as their protector against Russia.

"There is concern in Central and Eastern Europe, too. about some American policies," Mr. Gati of Johns Hopkins said. "But America has more friends relatively speaking in Central and Eastern Europe today than in Germany and France.

"Therefore, these countries being in the E.U., and especially if they do something about pro-American Turkey -- it is good for us," he added.

Coal Tells of a Hard History, but the Future Is Here, Too

By RICHARD BERNSTEIN

6 February 2006

KATOWICE, Poland, Jan. 31 -- When you step off the plane at the small airport in this southern Polish city, the first thing you notice is the acrid odor of burning coal, a smell common in Communist countries. But Communism officially ended some 16 years ago, when Poland liberated itself from the twin domination of the Soviet Union and its own Communist Party.

In Katowice (kaht-oh-VEE-tsah), stained and soot-blackened, the coal mines go back to the first half of the 19th century, and the Communists used them to build one of Eastern Europe's powerful, polluting and ultimately uncompetitive models of heavy industry.

Of course, a great deal has changed since 1989, and it is not just the obvious things: Poland's membership in NATO and the European Union, or the suburban shopping malls outside of Katowice, where the big European chains are eagerly competing for the purchasing power of the Polish middle class.

Katowice is locked in its several pasts. One-third modern European town, one-third recovering Communist industrial model, one-third 19th-century industrial-revolution artifact, it is probably a microcosm of Poland in the midst of change. But if you ask some of the coal miners who hang out at the local Pub Giness, you will see that change is both exciting and unsettling.

"We were freer under the Communists," said one the other day, nursing a large mug of Tyskie Beer (since 1629), "because now you are worried that you are going to lose your job, and if you lose your job it's going to be very hard to get another."
This sort of remembrance does not reflect the fact that the miners drive Peugeots or Toyotas these days and do not have to wait 10 years for a tinny little Soviet-made Lada. And there may be a certain wistfulness that miners were once the ideologically privileged industrial proletariat of Poland, and that there was a time when they could take their families on two-week vacations at

subsidized workers camps on the Baltic for about $15.

A few years ago, some people here were predicting that a Poland in the European Union would quickly become like Germany or Belgium, and clearly that was wrong. This is a city where whole neighborhoods of two-story brick miners' houses, built by the mine owners a century ago, are still inhabited, their window frames painted red and lovingly decorated with lace curtains.

They are in their way proud architectural monuments, certainly nicer than the gray Stalinesque apartment blocks that followed and that are also still a mainstay of the local architectural archaeology. And there are other proud monuments, including the stately, neo-Gothic mansions built during the 120 years or so when Katowice and its surroundings were part of the German Reich.

There are also three large cast bronze wings, each commemorating one of the Polish uprisings after World War I that enabled this area to join the reconstituted Polish state until Hitler reconquered it in 1939.

Photographs taken between the world wars line the halls of the sparklingly refurbished Monopol Hotel, Katowice's most luxurious, showing local sights that do not seem to have changed much.

And the mines, resilient through all of Poland's turbulent history, keep on going even now that Katowice as a seat of heavy industry has turned into Katowice as an emblem of the Communists' economic failure, with an unemployment rate of 20 percent and the air still heavy with the scent of industrial emissions.

"Polish electrical power generation is mostly fired by hard coal, and right here in Silesia there are very rich deposits of hard coal," Kazirmierz Marchwiarz, chief investment engineer of the Myslowice Anthracite Mine, said in his office, overlooking a view of the conveyer belt towers and the brick smokestacks that have been the tallest features of the local landscape since the mine started operations in 1837.

"Of course, the future doesn't belong to coal," Mr. Marchwiarz continued. "Therefore every year we dig less and less coal. But it would be improper not to dig it as long as the country still uses it."

Mr. Marchwiarz is proud of the advanced state of the mine's technology, its good safety record, its venerable history stretching back 169 years, to a time when Poland was divided up among Russia, Austria-Hungary and Germany (the border where the three empires met is, like his Myslowice mine, in the Katowice suburbs).

The five miners in the Pub Giness, their heavy mustaches gleaming with foam, illustrate the halting pace of change here. Most of their grandfathers fought in the Silesian uprisings against the Germans, and when that was over, they worked in the mines, using pickaxes and shovels at a depth of perhaps 200 feet.

Their fathers worked the mines, too, even as they lived the tumultuous history of the German invasion and the Communist takeover, using electric drills and a lot of muscle power in shafts that had descended to 500 feet or so.

The men at the Giness now ride elevators down 1,500 feet, and they use high-speed excavation machines and computerized conveyer belts to get out the coal. Some of their fellow miners live in the same sooty brick houses that their grandfathers occupied when this area was part of the Kaiser's empire.

They are miners. But will their children be?

Romania and Bulgaria Celebrate Entry Into European Union

By DAN BILEFSKY

2 January 2007

BRUSSELS, Jan. 1 -- Romania and Bulgaria joined the European Union on Monday, helping to end geographic divisions left over from the cold war and extending the borders of the now 27-member bloc eastward to the Black Sea.

In Bucharest, Romania, President Traian Basescu said Sunday night that the entry into the European

Union signaled the end of a painful 17-year process. "We arrived in Europe, welcome to Europe," he said to rapturous applause from a crowd in University Square. "This is an enormous chance for new generations."

In Sofia, the Bulgarian capital, revelers gathered in Battenberg Square. Fireworks filled the sky over the building where the Communist Party once had its headquarters. "We are home!" said a headline in the Bulgarian newspaper Trud.

Romania and Bulgaria, now the European Union's poorest members, hope that membership will help them raise their per capita wealth, which is one-third of the Union average. Their accession, the second wave of enlargement into formerly Communist Eastern Europe, will also give the Union a stable political and economic anchor in an unstable region.

Romania, with a population of about 22 million, becomes the European Union's seventh largest member. Bulgaria has a population of 7.7 million.

For Romania, which suffered one of Eastern Europe's most brutal Communist dictatorships under Nicolae Ceausescu before he was overthrown in 1989, being moored to the European Union is an important symbolic final break with a difficult past. For Bulgaria, whose history is marked by conflicts with the Ottoman Empire and Soviet occupation, European membership is also viewed as a source of economic and democratic stability.

The European Union has been experiencing expansion fatigue, though, after the bloc's enlargement in May 2004 to 25 countries from 15. With the latest additions, the Union has a population of nearly 489 million.

Some members, like France, are concerned that the addition of member nations with much lower per capita incomes, the European Union will become economically overburdened, institutionally unwieldy and ultimately unmanageable. They fear that expansion will diminish their power while paralyzing the European Union's decision-making process.

Wariness about the future shape of the Union was reflected in French and Dutch rejections of a proposed European constitution in referendums in 2005. Since then, there have been calls across the bloc for a slowing of the pace of enlargement.

Such ambivalence, stoked by fears of immigration and Europe's lackluster economic performance, has been most prominently expressed in opposition to admitting Turkey, which is Muslim. It has also cast a shadow over the admission of Romania and Bulgaria, which have been criticized for corruption that has lingered since Communist times.

Some countries, though, led by Britain, with the enthusiastic backing of the United States, have supported further expansion because the promise of membership has helped accelerate economic and political change in Europe, ranging from the arrest of war criminals in Croatia to the liberalization of Turkey's banking industry.

The cautious approach to further expansion was reflected in the tough conditions imposed on Romania and Bulgaria for entry.

Even now that they are in the Union, the two countries will be subject to unprecedented safeguards devised to keep them from backtracking. They include the power by the European Commission, the union's executive, to suspend some of the rights that come with membership, like generous economic aid.

The commission has also threatened to suspend recognition of arrest warrants and decisions made by Bulgarian courts if the country does not improve its judicial system.

Romania expects to receive as much as $ 2.2 billion in the first year after entry, while Bulgaria would be entitled to $873 million.

The European Union has been grappling with fears that westward migration from its poorer members in the east risks undermining the bloc's social standards.

At the time of the last enlargement, in May 2004, the European Commission estimated that the number of migrants throughout the bloc would total 70,000 to 150,000 a year. But Britain alone is estimated to have received up to 600,000 in the past three years.

Britain, Sweden and Ireland, which opened their doors to European Union newcomers in 2004, have already signaled that they are less inclined to do so now. Romanians and Bulgarians may also face obstacles in labor markets in Hungary, Slovakia and the Czech Republic, which are themselves confronting restrictions by countries further west.

At a recent meeting in Brussels, European leaders toughened their tone on enlargement but stopped short of setting new hurdles to expansion. They reaffirmed backing for the eventual membership of Turkey, Albania, Bosnia, Croatia, Macedonia, Montenegro and Serbia.

PART III: Economic Crisis

I.M.F. Announces Financial Rescue Plan for Romania

By DAVID JOLLY

26 March 2009

PARIS -- Several lenders led by the International Monetary Fund said Wednesday they had agreed to provide $27 billion in emergency loans to Romania to help it deal with the financial crisis. The loans include a two-year standby loan of 12.95 billion euros, $17.6 billion, from the monetary fund and 7 billion euros, $9.5 billion, from the European Union, the World Bank and the European Bank for Reconstruction and Development.

The monetary fund says that Romania will be able to draw 5 billion euros within a few months. Romania joins Iceland, Ukraine, Serbia, Belarus, Hungary and Latvia among European countries that have sought help since the global economy slowed last year. The economic crisis led investors to sell the currencies of smaller countries in a flight to dollars, euros and the Japanese yen. International institutions have sought to plug the hole in the countries' finances with about $60 billion of emergency lending.

"The objective of the policy package is to cushion the effects of the sharp drop in private capital inflows," Dominique Strauss-Kahn, the managing director of the fund, said in a statement announcing the package.

The Romanian economy has been weakened by a sharp decline in foreign investment, even as the government's finances and the banking sector have been overwhelmed. The economy is expected to contract by as much as 4 percent in 2009, as domestic demand shrinks and exports slump.

Romania, with 22 million people, had a gross domestic product last year of about $214 billion, the monetary fund said. Its external debt at the end of January was 50.6 billion euros, the central bank said. Romania, one of Europe's poorest countries, must reduce government spending as a condition of the emergency loans.

European Union officials said that "a key element" of the bloc's assistance, in the form of a balance-of-payments loan, would be "an immediate and sustained fiscal consolidation to limit the budget deficit" to 5.1 percent of gross domestic product this year and to less than 3 percent in 2011.

Unemployment in Romania rose to a two-year high of 5.3 percent in February, from 3.8 percent in July, prompting the Economist Intelligence Unit, a British research firm, to warn last week that unemployment could make Romania a "flashpoint for political destabilization."

The fund said the Romanian bailout program contains "explicit provisions to increase allocations for social programs, as well as protection under the reforms for the most vulnerable pensioners and public sector employees at the lower end of the wage scale."

Economic Crisis Pits the European Union Against Its Members

By STEVEN ERLANGER; Nadim Audi contributed reporting from Amiens and Calais, France, and George Calin from Bucharest, Romania.

9 June 2009

BERLIN -- The European Union is an extraordinary experiment in shared sovereignty, creating a zone of peace that now stretches from Britain to the Balkans. The union of 27 countries is the world's most formidable economic bloc, incorporating 491 million people in an integrated market that produces nearly a third more than the United States.

But the global economic crisis has made it clear that Europe remains less than the sum of its parts. The crisis has presented the European Union with its greatest challenge, but even many committed Europeanists believe that the alliance is failing the test. European leaders, their focus on domestic politics, disagree sharply about what to do to combat the slump. They have feuded over how much to stimulate the economy. They argue about whether the European Central Bank should worry more about the deep recession or future inflation. And they have rushed to protect jobs in their home markets at the expense of those in other member countries.

The latest European parliamentary elections on Sunday drove home the point. Only 43 percent of Europeans voted -- a record low turnout, despite the financialcrisis and compulsory voting in some countries. Far-right parties, opposed to the European Union and to immigrants from poor member countries, recorded gains, as did the Greens. Those who did vote weighed in largely on national issues.

With American leadership undercut by divisive foreign wars and the United States' economic model of market freedom and light regulation under great challenge, Europe matters. The "European model" of significant government involvement in the economy; close supervision of finance, industry and labor; and generous state-run pensions and health care, is being praised in some circles as a freshly viable alternative to Anglo-American-style capitalism.

But although the subprime mortgage crisis began in the United States, Europe is arguably suffering more. The International Monetary Fund estimates that European banks hold more bad assets than American ones and have written down much less. Budget deficits are rising, and unemployment, especially among the young, is already at its highest in 10 years.

With the response hobbled by a fractious European Union, many economists now expect the downturn to last longer here than across the Atlantic.

"We are in a moment of a very severe crisis," said Joschka Fischer, a Green Party politician and former German foreign minister. "We have a traumatic lack of leadership; we are caught right in the middle by the flood."

National vs. Common Good

The central tension in the union has always been between national priorities and collective interests. Ceding national rights and powers -- over currency, trade, customs duties -- has never been simple, even in good times. In bad times, like the current downturn, national politics trump the common interest. Leaders move to protect their own industries, workers and voters at the expense of those elsewhere. Workers still seethe at the sacrifices they feel they make on behalf of integration.

At the Goodyear Dunlop tire factory in Amiens, in northern France, Thierry Fagot, 36, is losing the job he has held for 13 years. He sees competition within the alliance as part of the reason.

"I feel like I was fooled. I mean, we created Europe to protect us, and for a long time it worked," he said, explaining that Europe provided a market for the factory's tires and established safety rules. "Now, with the competition of Eastern countries, I feel like Europe created this situation where we're losing our jobs to another E.U. country. How can this be for the greater good?"

The European Union is not about to collapse amid such antagonisms. But some of the continent's most devoted advocates are scaling down their ambitions. Few speak any longer of a Europe that is a significant political or military counterweight to the United States.

Mr. Fischer, the Green Party politician, is a committed European who bemoans "the post-'89 generation's" indifference to the ideals of a

European destiny, and the retreat, under the pressure of the crisis, to nationalist goals and rhetoric.

"Crises are always moments of truth because they relentlessly expose both the strengths and weaknesses of all the players involved," said Mr. Fischer, criticizing in particular the narrow, national vision of the German government.

He said the European Central Bank, which sets a major borrowing rate for the 16 nations that use the euro as a common currency, has done well. But the European Commission, the union's main executive body, "played a zero role in the present crisis, and this was a transnational crisis, so the role of the commission should have been just the opposite."

Instead, European leaders are concentrating on passing the long-delayed Lisbon Treaty, to create a European president and foreign minister and simplify decision-making. But the treaty has little to say about economic matters.

The strains are evident in the way countries have worked to bail out their own banks and rescue national factories of global automobile companies, when a broader European policy would be more logical. But they are also visible in the inability to agree on a policy toward Afghanistan or on a joint energy policy to reduce European dependence on Russian natural gas.

German-French Tensions

Germany and France together are the traditional motor of the European Union, but relations between them are cold, with the French president, Nicolas Sarkozy, and the German chancellor, Angela Merkel, putting national interests first, whether the issue is social benefits or saving jobs in the faltering car industry.

Divisions are also evident between northern Europe and southern Europe, with more fiscally responsible countries like Germany only reluctantly promising to help floundering economies like those of Spain and Greece. Solidarity, meant to be the great principle of the European Union, is fraying as well on East-West lines, with the countries that use the euro reluctant to jeopardize the currency's stability by rescuing members outside the so-called eurozone, like Bulgaria and Romania.

Few want to consider what happens to Ukraine, a nonmember, where many European banks, especially German and Austrian ones, are heavily invested.

And the promise of a Europe "without borders" has been undermined by a reaction in hard times against immigrants from around the region who are seen as competing for jobs.

Before the European parliamentary elections, Mr. Sarkozy and Ms. Merkel issued a joint letter. "We want a strong Europe that protects us, we reject a bureaucratic Europe that mechanically applies nitpicking rules," they wrote.

But they disagree sharply on the role of public spending and the European Central Bank. Mr. Sarkozy favors more stimulus and giving the central bank the flexibility to buy bonds or public sector loans to help revive lending. Ms. Merkel, in contrast, has attacked rising budget deficits and criticized the central bank for reducing interest rates too much and risking future inflation.

They agree, however, on protecting jobs in their home markets. While Mr. Sarkozy has been criticized for providing billions to protect French car companies, Ms. Merkel, with a national election in September, has just brokered an expensive deal for Opel, the European branch of General Motors, almost entirely based on saving German jobs.

The former French president Valery Giscard d'Estaing said that since the French rejected a European constitution he helped to draft in 2005, national leaders had dominated those who favor a stronger union.

"It's retrograde," he said in an interview. "In a short-term crisis, you may have national intervention to protect people, but it's not a policy, it's just a reaction," he said, putting the single market at risk. "The trend must be to see the European market as a whole."

Questioning a Bloc's Purpose

In Calais, France, the Schaeffler Chain Drive Systems factory, German-owned, makes parts for Opel. A third of the workers were laid off a month ago, including Dany Valcke, 53. He was a foreman, but now, as he says, "time is all I've got," and he doubts he will ever find another factory job.

"Europe is a good thing, it allows our countries to have a stronger voice in the world, and it brought peace," Mr. Valcke said. "But economically, it's not so good. Many have lost their jobs to European countries where the work force is cheaper. They are part of Europe, but if you want Europe, you can't have these two competing systems."

The European Union "didn't try hard enough to help its people through the crisis. It probably doesn't even have the power for this," he said. Then he asked, a bit plaintively: "Sometimes I wonder what it's for, if not for this? I find the U.S. government response to the crisis much more appropriate."

In Romania, on the other side of the union, the workers are suffering, too. But they take some comfort in being part of a larger, richer bloc than their old, Soviet one, and in general blame local leaders for their problems.

Cristina Lincu, 32, went to find work in Spain in 2001. Now she is back home, with her husband and baby son. The crisis hit their small Madrid grocery hard, but it also reduced property prices in Romania, so they came back and bought land for a house. In a way, she gained from the crisis, Ms. Lincu said, but she is concerned about her fellow Romanians in Spain. There, "the vast majority of immigrant workers were doing low-paid or not very dignified jobs, but now even Spaniards want those jobs," she said.

As for the European Union, she is grateful. "It's a wonder they admitted us in the first place," she said, laughing. "We have such a big corruption problem here."

As for the future, opinions are divided, but few predict that the European experiment is over. The Lisbon Treaty is expected to pass eventually, strengthening the union's powers. And today's leaders, however divided, may learn to grapple with economic challenges collectively, even as they learned to avoid the military conflicts of an earlier age.

"It will be tough, we'll have setbacks, history will beat us up, we'll have painful years, but I think crisis creates leaders, the right leaders," said Mr. Fischer, the German Green Party politician. "I'm not pessimistic."

Resilient Romania Finds Advantage in a Crisis

By DAN BILEFSKY

4 November 2012

BUCHAREST, Romania -- When German de Marco's work dried up in beleaguered Spain earlier this year, Mr. de Marco, a high-powered civil engineer, never imagined that Romania, the European Union's second-poorest country, would provide his economic lifeline.

But after the Spanish government ran out of money and halted construction of the high-speed railway he was working on, Mr. de Marco, a 34-year-old Spaniard, found a job here supervising the building of a $90 million tram line. The rent on his apartment in an elegant neighborhood in Bucharest, the Romanian capital, is half what it was in Barcelona, helping him save an extra $1,300 a month.

"When my boss suggested transferring me to Romania, I initially thought, 'You must be kidding,' " Mr. de Marco said. Yet, after eight months here, he does not want to leave.

Mr. de Marco's unlikely pilgrimage eastward underscores the reality that many of the European Union's former Communist states are proving remarkably resilient in weathering the Continent's economic crisis. Those newcomers to the union have been conditioned by decades of hardship under the Kremlin's rule. But as the eurocrisis has deepened, it has also helped that Romania and the others have kept their own currencies.

That has given these still-developing countries a host of advantages, while many economists

believe that the euro zone's one-size-fits-all monetary policy has hampered Ireland, Greece and Spain in restarting their moribund economies. Indeed, many of the post-Communist states are having strong second thoughts about their long-running goal of adopting the euro.

Mugur Isarescu, the governor of the National Bank of Romania, said in an interview that maintaining its own currency had given Romania the flexibility to set interest rates, control liquidity and allow the currency to depreciate to help rein in the deficit. In the absence of control over monetary policy, he noted, euro zone countries like Greece are forced to rely primarily on fiscal policy: taxing and spending.

"Of course there is a backlash and disappointment because E.U. accession was seen as a panacea," he said. "The dreams were too high."

In Romania's case, maintaining its cheaper currency, the lei, has made its exports -- two-thirds of which go to the euro zone -- more competitive and given it a lower cost of living that has made the country a sudden draw for highly qualified workers from struggling euro zone countries.

Though millions of Romanians were streaming into Spain and Italy in search of economic opportunity only a few years ago, today Spanish unemployment hovers near 25 percent, while in Romania it is about 7 percent.

Seven of the 10 former Communist countries in the European Union have yet to adopt the euro. The Czech Republic, which uses the koruna, wants a referendum before adoption and has cited 2020 as the earliest target date. Hungary has stuck with its currency, the forint, and said it would not adopt the euro before 2018. In Poland, Prime Minister Donald Tusk recently deemed the euro "completely unattractive."

Romania's previous target for joining the euro zone, in 2015, is now "out of the question," Mr. Isarescu said. Nevertheless, he argued that trying to meet the criteria to join -- including keeping budget deficits below 3 percent of gross domestic product -- was good discipline.

Though buffeted by the crisis, some countries in Eastern and Central Europe are holding up better than their neighbors to the west that have been joined at the hip by the euro. Poland's economy was the only one in the European Union to grow in 2009, the year the financial crisis exploded. The Baltic states of Latvia and Lithuania, which underwent painful austerity, are booming again. Even in growth-starved countries like the Czech Republic, the social upheaval has been tame compared with Greece, with Czechs far more likely to vent their frustrations in the pub than on the street.

"We in this region are used to living through difficult times," said Tomas Sedlacek, a leading Czech economist who was an adviser to former President Vaclav Havel. "We still remember Communism when we were poor and miserable and far worse off than Greece."

Of course, Romania has hardly been immune from crisis. Successive governments have grappled with a backlash against austerity. And the political turmoil that ensued when the government of Prime Minister Victor Ponta pressed, and failed, to impeach President Traian Basescu this summer shook investor confidence. It also called into question the future of a $26 billion rescue package from the International Monetary Fund, the European Union and the World Bank that Romania obtained in 2009 in exchange for severe spending cuts.

The I.M.F. has since made available the latest installment of about $650 million. Economists said Romania had avoided the profligacy that has unhinged the Greek economy, thanks in part to tough austerity measures beginning three years ago. Romania slashed public sector wages by 25 percent and raised its value-added tax to 24 percent from 19 percent, helping stave off budgetary shortfalls.

Romania's budget deficit amounted to about $2 billion, or 1.2 percent of gross domestic product, in the first nine months of the year, compared with $17 billion, or 5 percent of gross domestic product, in Greece. (Growth this year in Romania is expected to be about 1 percent, according to the government, compared with an expected contraction of more than 6.5 percent in Greece.)

Beyond the advantages of being outside the euro zone, Romania also benefited from the exodus of nearly three million Romanians after it joined the European Union in 2007, said Daniel Daianu, professor of economics at the National School of Political and Administrative Studies in Bucharest and a former finance minister. The manpower drain kept unemployment relatively low and lessened the financial strain on the state. Even with the crisis engulfing southern Europe, few Romanians have returned home.

Though dilapidated tenement houses and poor people hawking scrap metal remain a feature of daily life here in the capital, designer shops, hip sushi restaurants and disco clubs now compete with the stray dogs and street children that have long blighted Romania's image abroad.

In Timisoara, a Transylvanian Silicon Valley about 350 miles from Bucharest, about 5,000 foreign companies, including Alcatel-Lucent, Microsoft and Oracle, have invested, drawn by the country's talented pool of engineers, relatively low wages and a strategic location between east and west.

While the recent political instability has caused major jitters, foreign investors said they were here for the longer term.

Dacia, owned by the French carmaker Renault, is one of the largest investors in the country. Currently employing 8,000 people, it has invested more than $2.6 billion since 2000.

Jerome Olive, Dacia's general manager, noted that the competitive cost of doing business in Romania was helping somewhat to offset the punishing downturn. The cost of an entry-level engineer in Romania is about $1,925 a month -- about half that of a similarly qualified engineer in France. "In Romania our factories never stop," he said.

Mr. de Marco, the Spanish engineer, also praised the Romanian work ethic, though he conceded that the fact that he earned 10 times as much as Romanian managers felt awkward.

"It is easier here to manage a team," he said. "In Spain, people talk back."

Poland Finds It's Not Immune to Euro Crisis

By JACK EWING

18 December 2012

WARSAW — The Fiat factory in Tychy, Poland, has long been considered one of the most productive auto plants in Europe, often singled out for praise by the Italian company's demanding chief executive, Sergio Marchionne.

Polish workers "always responded whenever I asked," Mr. Marchionne said at the Paris Motor Show in October. "I feel an exceptional responsibility to the people there."

So when Fiat said recently that it would lay off a third of the work force in Tychy, or about 1,500 people, it was a harsh reminder: Even with the healthiest big economy in Europe, Poland cannot escape the Continent's economic downturn.

Polish growth is expected to slow to as little as 1.5 percent next year, according to World Bank estimates, from 2.1 percent this year. That still compares favorably with the neighboring euro zone, where most countries are either in recession or just barely growing. With a gross domestic product of €369.7 billion in 2011, according to the European data agency Eurostat, Poland ranked ninth among the 27 E.U. countries, just below Belgium and a rung above Austria.

During much of the region's debt crisis so far, Poland has counted itself fortunate that the troubles began before the country had joined the euro currency union. By being part of the E.U.'s common market, but not bound by euro strictures, Poland has been one of the Continent's rare economic good-news stories. But the deceleration in Polish growth, which has prompted the central bank to begin a series of interest rate cuts to stimulate the economy, has underscored the country's exposure to slumping euro zone consumer markets.

The country's long border with Germany, and its own skilled, low-cost labor force, make Poland an attractive place to make heavy consumer goods like cars and home appliances. General Motors'

Opel unit, suffering from many of the same maladies as Fiat, has a plant in Gliwice, though it has not announced job cuts there. Bosch, Whirlpool and Electrolux all make household appliances in Poland for the European market.

The country's slowing growth is likely to put pressure on Polish leaders to address some underlying problems, notably an overbearing government bureaucracy.

"Luckily, we are doing quite well so far," said Jan Krzysztof Bielecki, a former prime minister who now advises the current prime minister, Donald Tusk, on economic issues. Speaking at a recent conference co-convened by the International Herald Tribune in Warsaw, Mr. Bielecki added, "We still have some space for improvement."

Yet, despite the economy's slowing velocity, Warsaw remains a fount of optimism, with ambitions to be a regional financial center. The city somehow manages to seem cheerful, even with its legacy of drab Soviet-era architecture.

In downtown Warsaw recently, as a light snow fell, skaters pirouetted at a temporary ice rink set up in the shadow of the Palace of Culture and Science, a monstrous high-rise building built by order of Josef Stalin in the 1950s.

"I really believe Warsaw is becoming the capital of Central and Eastern Europe," said Hanna Gronkiewicz-Waltz, mayor of the city. "In these difficult times Warsaw offers not only dynamics but stability."

Although Vienna emerged as the gateway to Eastern Europe after the end of the Cold War, Warsaw has since surpassed it by some measures — like trading volume at the stock exchange.

And economic success has translated into political prestige. When European leaders accepted the Nobel Peace Prize on Dec. 10, Mr. Tusk, the prime minister, sat next to Chancellor Angela Merkel of Germany, the most powerful leader in Europe.

Poland remains a source of profit for companies in Western Europe that badly need them. "For us it's really a bright spot in the European market," said Anna Wiosna, manager of strategy development for the Polish unit of Hochtief, a German construction company that has upgraded Warsaw Chopin Airport, among other large projects.

More than half of the third-quarter profit of Commerzbank, one of the largest German banks, came from BRE Bank, its Polish subsidiary. Because Commerzbank is 25 percent owned by the German government following a bailout, it could be said that Polish depositors are helping to ease the burden on German taxpayers.

The Polish economy may even still be benefiting to some extent from problems to the west, as European companies try to cut costs by moving some of their activities to Poland. The country, and in particular the university city of Krakow, has become a major outsourcing center for companies like I.B.M., Citigroup and Lufthansa. Even Infosys, the Indian company that helped invent the outsourcing industry, has a big presence in Poland, with 1,400 workers in the city of Lodz.

"The more the world and European economy are struggling, the more investment we get," said Jacek S. Levernes, an executive at Hewlett-Packard who is president of the Association of Business Service Leaders in Poland, an industry group.

With 38 million people, moreover, Poland's domestic market is big enough to be at least partly self-sustaining. The economy is not dominated by any one industry. Autos are important, but there is also a thriving food products industry and a growing energy sector focused on shale gas.

And having its own currency, the zloty, has helped buffer the shock waves emanating from the euro zone. Polish leaders say they are working to fulfill the requirements for joining the euro, which include meeting deficit and inflation targets, but they do not sound like they are in any hurry.

"The strategy of Poland is to keep our foot in the door," said Mr. Bielecki, the former prime minister.

Euro or not, though, the fate of Poland is inescapably intertwined with that of its troubled neighbors. About 55 percent of Polish exports go to the euro area, especially to Germany, where growth has slowed to nearly zero. Although Polish

banks dodged the worst of the global financial crisis, most depend on their western parent companies for the funds they use for lending.

The economic pressure could require Polish leaders to deal with underlying weaknesses in the economy. The government has little room to attempt stimulus programs, because the country's finances were stretched to the limit by the global financial crisis of 2008 and 2009, said Xavier Devictor, the country manager for Poland and the Baltic countries at the World Bank.

"There is very little, if no scope for the fiscal policy to support Poland's growth," Mr. Devictor said by e-mail.

At the recent conference convened by the IHT in conjunction with the Warsaw Stock Exchange and The Warsaw Voice newspaper, government bureaucracy was easily the No.1 complaint by business people.

Mr. Devictor generally gives Polish policy makers good marks, but he added, "The structural reform agenda in Poland is still far from finished."

Business leaders including Antoni F. Reczek, chairman of the British Polish Chamber of Commerce, told of arbitrary decisions by midlevel government officials that cost foreign companies millions. Administrative hurdles have prevented smaller and midsize foreign companies from investing in Poland, Mr. Reczek said.

As a result, Poland is all the more dependent on major employers like Fiat, which is why its layoff announcement was such a psychological blow.

Few foreign manufacturers have roots in Poland as deep as Fiat's. The Italian auto company made cars in Poland as early as 1922. And even during Communist times a state-owned plant in Tychy built Fiat copies under license. Fiat later acquired the plant, which it uses to build the 500, one of the company's most popular models.

But Fiat has been hit especially hard by the slump in European auto sales, because of its dependence on countries like Italy and Spain that are deep in recession. The company expects this year's production at Tychy to be only 350,000 vehicles, down sharply from 600,000 in 2009. Next year, Fiat says, production will fall below 300,000 vehicles.

But it is not only the fault of the euro zone. Within Poland itself, car sales by all makers have fallen 20 percent since 2008, the company said.

Such signals are all the more reason that officials like Ms. Gronkiewicz-Waltz, the Warsaw mayor, said that Poles must not simply wait for the euro zone to get its act together.

"Historically, the times when we counted on others was when we were not successful," she said. "Whenever we were successful, it was because we counted on ourselves."