

**John D. Sullivan's Welcoming remarks to "Twenty Years After the Fall of the Berlin Wall: Lessons Learned and the Future of Reform," held in Kyiv, Ukraine November 1-17, 2009.**

I have the task of just giving some brief opening remarks and then introducing the first panel. It's a really wonderful occasion for all of us, after 20 years of work, to take the opportunity to look back a bit to see what lessons we've learned from the transitions to market democracy in this region, and to see what remains to be done, to draw lessons for other countries in the region as well.

In trying to think of what experience I had that had the greatest impact on me, it was actually from Poland. In 1989 I was at a conference; at that time we had a US-Polish Business Council. And we were having a conference in Poland right before the elections, this was maybe three or four weeks before the Solidarity elections, and the negotiations were going on. So the Communist government, the Jaruzelski government, was still in power, and they were trying to re-invent themselves into becoming a social democratic political party along the lines of some of the French parties or the Spanish parties. One of the things they did was to pass what they called the First Law on Private Economic Enterprising. They were very proud of it, and they came to give us a speech – the Polish business people and the American business people who were meeting together. Many of the Polish business people at that time of course were in state-owned enterprises, but there were a few private entrepreneurs, very small. In fact, the Polish Chamber, represented today by Mieczeslaw Bak, was there.

When they passed out the law, which they had translated into English, I noticed there was a very interesting phrase. What it said was that "anything that is not explicitly forbidden in this legislation shall be permitted." I thought to myself, growing up in a market economy and a democratic system, "Why would you need a phrase like that? Of course if it's not forbidden, it's permitted." I asked around, and I learned that wasn't the case at that time. In fact, if you couldn't find a piece of legislation or a regulation to show that you were allowed to do something, then it was assumed to be forbidden. So whatever was not permitted was forbidden – the complete reverse. I started talking to some of my Polish colleagues about that, and began to realize the dimension, the real magnitude of transition that was going to be required – all the way down the local courts and the mayoralties. I was seized with this idea that whatever was not permitted was forbidden, and I began to realize that it was going to be an enormous transition.

So what we're here to do today is to see how far we've come with that process of re-orienting not just a few laws and regulations, but many laws and regulations as well as habits. One of the things that began to happen at the same time, which is very important for our work at CIPE, was the transition that began to happen in the idea of economic theory. It was shortly after this that Douglass North got the Nobel Prize in economics for coming up with an idea called the new institutional economics. In most neoclassical economics used in many of the OECD countries, and which US economists taught, and what many of the squadrons of reformers in Central and Eastern Europe believed, you really just had to focus on the macroeconomics, on a few policies, and everything else would happen automatically. We know now, after 20 years, it doesn't happen automatically. You have to worry about property rights. You have to worry about contracts. Large informal sectors still exist – Ukraine has one of the largest informal sectors in the region. There is still much work to be done.

Of course, CIPE has been very proud to be a part of this transition process for a number of years. We've learned many lessons, but we're here today to reflect back and to look forward. One of the things I'd like to ask all the presenters and participants today to think about today is: what is our strategy for the next five years? What are the main priorities? We have speakers from Russia, from Central Asia, from Poland – what do you think, and how should we be structuring our strategy at CIPE?

One of the things I like to think makes us a little unique is that CIPE is not an organization based in Washington. It is really much more of an interactive network of partnerships throughout the world. We're a little bit bigger than we were several years ago. We now have offices in other places that are somewhat difficult – Baghdad, Kabul, Karachi – tough places to work. We're learning a lot of lessons there as well. What we'd like to do today is to think of CIPE as a network of interactive organizations.

There are groups that work on corporate governance, which is one of themes we discovered the importance of in 1989, before the rest of the world did. We discovered this idea, because as we were in Prague and Budapest and Warsaw, and privatization began to appear, we began to realize, how were they going to run all the corporations? It's fine to bring over people and start MBA programs, and you need management and accounting, but for the basic structure of the corporation itself, how were we going to find people who understand the basic roles of directors? Later this afternoon we'll have a session, and several people will speak to that subject, one of whom is Igor Belikov. One of the things we're really pleased about is his success in establishing the Institute of Directors in Russia. There are similar institutes in other parts of the former Soviet Union and Eastern Europe. These institutions are very important, because they're establishing the idea of the governance of the corporation. This is not a situation where you can just get six people together and say "Let's have a board meeting." You really need to think about how the corporation is structured, the issues of transparency.

This is related to another theme we will be talking about today, anti-corruption. The role of transparency, integrity, rule of law in creating the institutions of the market economy is fundamentally important. Without that transparency, you don't get business. One of the things that always struck me is, as Doug North pointed out, the history of economic growth, from the Middle Ages, can be summed up in one sentence: What does it take to go from personal transactions, from doing business with friends, neighbors, relatives, to impersonal business, where you can have contracts that are enforceable with people that you have never met? If you think about the steps that run through that process, that's putting in places contracting, rule of law, a whole series of institutions.

Economics has been transformed in many ways by your transformation in Central and Eastern Europe, as people began more and more to realize that these institutions don't just appear. They have to be created. You have to have skilled people that work on these institutions. You have to have respect for the institutions. Most importantly, you have to have the modern corporation – whether it's a large corporation or a small business – that understands how to function within these institutions. We have some lessons still to learn about that. I would say that in the United States we still have quite a few lessons to learn about the importance of institutions, particularly financial institutions. The international financial and economic crisis that has hit the world, beginning in the United States and the United Kingdom, has once again exposed that these financial institutions are fundamentally important. There is

an inter-relationship between the way corporations are structured, the way the market functions, and the democratic system.

One of the things we've learned is that each country travels its own path. There are no success stories that you can just pick up from one country and pose in another. It has to be built from the grassroots. One of the projects we'll be talking about is the National Business Agenda. We have one of these programs going on right now in Moldova. It illustrates what I'm talking about – the importance of building for each country. You have to mobilize people. You can't just sit down and say, "We're going to bring three economists and two business people from France or Sweden and they can tell us what needs to be fixed." You have to go city by city mobilizing small business, medium business, corporations, identifying the issues that are important to them, bringing them together, and then turning them loose, getting them organized into an agenda of reforms that they, in turn, go to the parliaments and argue for. Otherwise, it won't happen. So that National Business Agenda becomes a very important vehicle for mobilization.