

EIR Special Report

Poland's hope for the future lies in global debt fight

by Clifford Gaddy, Stockholm Bureau Chief

To judge by *EIR*'s conversations with officials in Polish government, economic and banking circles held in December, a list of foreign-literature best-sellers in Warsaw would be topped by two works: *The Crash of '79*—Paul Erdman's fictional scenario for an international financial collapse, and *Operation Juárez*—Lyndon H. LaRouche Jr.'s far-from-fictional outline of measures for avoiding such a disaster.

Since Kerstin Tegin-Gaddy and I were in Warsaw specifically to discuss the future of the Polish economy and the world economy, it is perhaps not surprising to have heard repeated references to these accounts of the global debt crisis. By the end of a week of talks with officials at all levels, however, it was clear to us that precisely these two writings sum up the two attitudes that Poles have toward the international financial crisis and their own situation: on the one hand, a feeling of hopeless resignation in the face of the inevitable collapse and, on the other hand, a constructive approach to reorganization of the monetary system for a new era of growth.

We were invited to Poland by strong advocates of the latter approach, but we took the opportunity to talk with a broad range of Polish citizens as well. What we saw and heard differed greatly in many respects from the image of Poland conveyed by the established Western media. We left Warsaw with a sense that Poland is not only a nation with an extremely strong will to survive, but one which nourishes a dream—kept hidden for the moment—of finding a way to regain the ambitious course of industrial development upon which it had embarked in the 1970s.

National reconciliation

Our visit coincided with a refocusing of international attention on Poland around the Dec. 13 anniversary of the imposition of martial law in 1981. Western media teams again were descending on Warsaw, and the international press was rife with rumors about the lifting of all martial law regulations and a hoped-for return to the 1980-81 heyday of mass protests and demonstrations. We found, however, that this enthusiasm for a replay of the earlier events were pretty well



Polish soldiers distribute food a year ago in the flooded region of Plock. The potential for national unity is asserting itself; the United States has a chance to aid, not sabotage, recovery.

confined to the hangouts of British and American journalists—the café of the International Press Center and the lobby of the incongruously luxurious Victoria Hotel nearby. Ordinary Poles seemed to have had enough of the frustration of the past. Their concern was for the economy and its bleak prospects in the period ahead. And not a single person we spoke to could honestly offer a revival of the Solidarnosc union movement as a solution to those programs.

Quite the contrary. Nineteen eighty-two could be described as a year of sobering up for most Poles. By the end of the year discussion was almost universally based on the realization that the precondition for overcoming Poland's economic crisis is national unity and reconciliation. This is the background to the all-important dialogue that has been successfully conducted—to the fury of ideologues in both the communist party and the Catholic Church—between Prime Minister Gen. Wojciech Jaruzelski and Cardinal Jozef Glemp.

So far, the principal obstacle to achieving such unity has been the lack of an acceptable *institutional form* for a true national movement. Whatever the Solidarnosc movement may have represented for various people at an earlier stage, it is now dead.

On the other hand, not even die-hard Polish communists believe the party can become the sort of mass-based institution required for a national movement. As for the Church, it has traditionally declined to serve as a vehicle for direct political action. The only solution, therefore, would be to create a new institution, which is what the present government, with the support of the Roman Catholic Church, is trying to do in the form of the newly created so-called Patriot-

ic Movement of National Rebirth (PRON).

Although the PRON has predictably been labeled a “communist front” by self-styled Poland experts in the West, the fact is that Cardinal Glemp has given his de facto endorsement to the attempt by encouraging Catholic laymen to become active in the PRON. Government spokesmen maintain that the newly founded PRON is growing rapidly into a mass-based organization. But it is clear that the future of the PRON, as national reconciliation itself, will remain uncertain as long as Poland's economic crisis—specifically the debt crisis—is unsolved. For, without radical improvement in this sphere, the outcome of such well-intentioned efforts will probably be more disappointment and frustration.

‘Government of the professors’

What, then, are the prospects for the Polish economy and how do the present managers of the economy view the situation?

The Jaruzelski government has sometimes been referred to as “the government of the professors,” because the Prime Minister's councils of advisers are largely drawn from academic circles. These are the people entrusted with drawing up plans for the economy over coming years, and a cynic could easily make the observation that no one could be better suited than a professor to deal with the Polish economy today, when all “planning” is nothing but an academic exercise.

As we were told by one of General Jaruzelski's advisers, Poland cannot now plan even a single year in advance, since no one in Warsaw knows what the future debt-repayment situation will look like.

Poland's hard currency debt totals close to \$27 billion, of which over half is owed to foreign commercial banks and the remainder to Western governments. Less than \$4 billion is owed to American lenders. The debt was incurred in the 1970s, when Poland obtained foreign credits to finance rapid industrial expansion. The borrowers reckoned without the precipitous economic decline in the West, where Polish products were to have been sold, to pay off the loans and turn a profit. The contraction of Poland's markets was aggravated by the circumstance that the credits had been overly dissipated—with lenders' encouragement—into small enterprises in the light industry sector, which turned out to be particularly vulnerable to the collapse of markets and pressure of creditors. Poland's capital goods industry, the domestic means for economic recovery today, was relatively malnourished in the past decade.

The debt is falling due now (see box). For 1981 and 1982, rescheduling arrangements were made with the banks, and with the governments for the first of those two years. These agreements, deferring payment on principal and exacting interest payments, left much unclear.

As late as December, no one in the planning department knew how much of 1983's foreign-exchange revenues would

be used to service the debt—since this depends on terms to be negotiated with the International Monetary Fund (IMF) and the banks—and how much could be used for importing industrial spare parts and supplies. Yet the ability to project these imports is more vital for forecasting output than are productivity increases, price levels, and so forth. As a result, the Polish Sejm (parliament) in December was presented, not with a fixed budget for 1983, but with various alternatives of possible economic performance, depending on 1) the weather conditions affecting the harvest and 2) the results of the debt negotiations.

For a planned economy with extensive relations with other planned economies, this situation is not merely absurd, but intolerable in the longer term. Today, the Polish economy is in a mere survival mode. Motion, where there is any, is eastward, towards closer integration with the other Comecon countries. In certain strategic areas, such as nuclear energy, we were told frankly that the decision—perhaps irreversible—has been made to cut off ties completely with the West and rely entirely on the U.S.S.R. and other Comecon members. It will not be long before other sectors must make the same decision. The machinery and equipment purchased in the West in the mid-1970s, which now needs replacement

Debt debate flares in the Polish news media

The discussions in Ibero-America in the summer and early autumn of 1982, dealing with the continent's huge foreign debt along the lines of *EIR* founder Lyndon LaRouche's "Operation Juárez," found numerous echoes in Poland. One of the most public was in an article in the widely read weekly *Polityka* in September. In "What Next with the Debt?" economist Stanislaw Gruzewski examined the prospects for repayment under the present arrangement, and concluded that it was an impossibility. He wrote:

"Most important is the way in which—or, more precisely, the terms on which—the Polish debt is refinanced. And there are little grounds for optimism. At present, the debts

from the first half of the decade are being postponed until the latter half. But payment of the debt at that time will be just as difficult, if not more difficult, than at present. It is worth looking at the concrete figures of what our payments situation will look like in the 1982-90 period, under the assumption that the debts falling due in 1982 and 1983 are rescheduled on the same terms as those negotiated for 1981. If we take the official planning commission forecasts for exports to the capitalist countries and imports from those countries in the 1982-90 period, the requirements for foreign exchange for servicing the foreign debt will appear as follows [see table]:

"As is evident from the figures, the refinancing of our debt on the same terms as hitherto is a road leading nowhere. In the course of the next nine years, the cost of interest alone is the enormous sum of \$35.8 billion, i.e., considerably greater than the total current debt to the capitalist countries. Such an economic burden and its social consequences are simply unbearable."

New solutions needed

"It is not only we who are interested in the repayment of our debt," Gruzewski continued. "This is something that our creditors are also interested in, to the same or an even greater degree. If the problem is to be solved to the satisfaction of both sides, suitable terms will have to be created for this. Not even the optimal performance of our extracting industries and related exports of coal, sulfur and copper can solve the problem. In order to start to build up an export surplus ena-

parts, will sooner or later be scrapped or sold if those parts are not available—owing to lack of foreign exchange or to embargo—and will be replaced by Eastern-made equipment. There have already been reports of Poland selling off some Western-built machines to developing countries.

In sum, willingly or not, the Poles are being forced by the debt crisis and sanctions to sever relations with the West. There are those in Warsaw who would welcome such a course, but so far they are in a minority, even in the communist party. Responsible Poles of all political persuasions seem to be unanimous in their assessment that Poland would suffer greatly from this kind of forced autarky. A characteristic view of the problem from one economic official was that “We in Poland were able to recover and develop in the post-war period thanks to our cooperation with the Soviet Union, which had the technology to bring us forward. Now, Poland has reached a point where cooperation on a broader scale, and access to Western technology, is a prerequisite for continued development.”

Operation Juárez versus the IMF

The impact of the LaRouche policy recommendations in Poland was most visible for us in the way they intersected an

bling us to pay part of the principal of our debt, we have to ruthlessly mobilize the currently vastly underutilized productive potential of our manufacturing industry. For this we need increasing imports. On the current terms of refinancing our debt, this is simply impossible. We must pose this question frankly to our partners. If they want to recover their money in the future, they have to agree today to reschedule the payment of the Polish debt over a period that would allow our economy to get back on its feet. In my view, such a period would have to be about 15-20 years. Our creditors ought to understand this. Otherwise, the consequences for both sides, as well as for the international financial system, will be dramatic.”

Polish trade and debt projections

(in billions of dollars)

	Exports	Imports	Debt Service	Of Which Principal	Interest
1982	5.8	5.8	5.3	2.8	2.5
1983	6.4	6.0	5.3	2.8	2.5
1984	7.1	6.5	8.5	4.8	3.7
1985	8.1	7.2	9.2	5.3	3.9
1986	9.5	8.3	11.8	7.5	4.3
1987	11.0	9.6	14.8	10.4	4.4
1988	12.5	10.7	17.0	12.3	4.7
1989	14.0	11.4	18.6	13.8	4.8
1990	15.5	122.3	19.6	14.6	5.0

Source: *Polityka*

otherwise misdirected debate going on in Poland with respect to the IMF.

Discussions in heavily indebted countries these days do tend to focus on the International Monetary Fund, and Poland was no exception. What was surprising for us at first glance was the way this discussion was being conducted. Knowing that popular protests against IMF conditionalities have erupted in virtually every Ibero-American country, one might have expected heavy opposition to the IMF in this communist country.

We found that, on the contrary, there was near unanimity in Poland in favor of closer formal ties to the IMF (Poland has an application pending for IMF membership), and that the strongest supporters of Fund membership were to be found in the communist party!

Closer review of the economic situation revealed the reason. Poland has been completely starved of credit for over a year, and officials told us directly: “What can we do? We need credit from anywhere we can get it, and we will take it on whatever terms are offered, good or bad.”

In public posture, that approach to the IMF will undoubtedly continue. But, we were assured, “Do not be misled by appearances. From now on, you will find more and more of our attention focussed on the developing-sector initiatives to create an alternative to the IMF. Poland is going to be a part of that.”

U.S. Poland policy

What the Poles themselves do in support of an emerging “debtors’ cartel” will of course be the decisive factor for that nation’s future. But scarcely less important for Poland is U.S. policy. It is therefore valuable to state some elementary facts in order to dispel certain illusions on which the hitherto disastrous American adversary relationship toward Poland has been based.

Martial law. It is no secret that significant components of the martial-law regimen remain in force in Poland. But the idea that economic sanctions can force their removal is wrong. It is precisely Poland’s economic crisis, caused in large measure by those sanctions, which is necessitating the top-down enforcement of labor discipline, especially in the mines. Poland is surviving today thanks to the fact that a quasi-militarized coal-mining industry has increased production enough to permit a margin of expanded exports.

Solidarnosc. The Solidarnosc movement is dead, as I noted. Attempts to revive it are not only doomed to fail, but they will also impede the current movement in Poland toward national reconciliation. Future efforts to reform the Polish economy and society will depend on the economic situation, the continuation of the Church-state dialogue, and the viability of new institutional forms of the national movement.

The Warsaw Pact. Poland’s military and foreign policy alliance with the U.S.S.R. is an issue which cannot be subject to Western pressure. Under the international circumstances of 1983, any Western policy aimed at breaking that alliance

will threaten the very survival of the Polish nation.

These facts, unpleasant as they may seem to some, constitute reality. But even within this framework, steps could be taken by the United States to the benefit not only of the Polish people and Polish-American relations, but also of U.S. foreign policy on a broader scale. Few questions, for example, have so aggravated U.S. relations with Western European allies as the differences over policy towards Poland. Terminating the patently counter-productive economic sanctions against Poland is the obvious first step Washington should take; but that is only the first step. The real issue to be faced, for the United States as well as for Poland, is the international debt crisis.

Interview: Polish energy official Jan Kubit

In 1978, Poland resolved upon a goal of having 20 percent of the country's electrical energy generated by nuclear power by the year 1990. Even this figure was low by the standard of East European nuclear power targets at that time; yet it represented a healthy if belated beginning for the Polish nuclear industry. By January 1979, the 20 percent target had been radically scaled back to 8.6 percent—a 60 percent cutback! This was part of an overall defensive retrenchment of Polish economic plans, as the country came under pressure from international creditors. With the crisis of 1980, all bets were off on the future of Polish industry, and it is still an open question, whether Poland will return to its ambitious plans for nuclear industrial power.

EIR interviewed Jan Kubit, Plenipotentiary of the Ministry of Mining and Energy for Questions of Nuclear Energy, and Member of Parliament, in Warsaw in December.

EIR: What is the general energy situation in Poland?

Kubit: Obviously, the energy crisis touched Poland, too, although the timing differed here from that of the Western countries. In the West, the energy crisis—especially oil—struck in 1973-74, whereas in Poland it appeared in 1976. Of course, the question is, why? The answer is relatively simple. In the West, the share of oil used in producing electricity was rather large, and given the relatively cheap price of oil, a tendency developed in the West to build electricity plants using oil. Consequently, the West restricted the construction of plants fired with black and brown [lignite] coal.

In Poland, the percent of oil-fired stations is very small.

Thus, the crisis was moved forward in time in Poland. Starting in 1976, instead of intensifying the development of energy, including nuclear energy, it was hampered, and electric power stations were built only on coal. Now, we must openly say something that specialists have long known: the transformation of the primary energy in coal into heat energy is the most primitive. On the other hand, uranium ore has been, and can in the future be, used for heat generation.

This is the general background for the Polish energy situation. . . .

The issue is simple. Local authorities and inhabitants must learn to like nuclear energy. That is, they must see certain specific advantages in nuclear power development—apartments, schools, the whole social infrastructure—and they must recognize the building of a nuclear power station as a boon to the whole region. This is what pays, because losses associated with the interruption of building and prolongation of construction times are much bigger than the cost of building social infrastructure.

That is why we are not afraid of the greenies. We will teach them to love nuclear energy. Obviously the problem of radioactivity is a cheap propaganda device and not a technical problem. The threat to the environment from nuclear power is many times smaller than from coal or other energy sources. But people have always been afraid of something new. They were afraid of fire. That's why to be burned was the worst form of punishment. Later, they became afraid of the atom bomb, and thus became afraid of atoms. . . .

EIR: What about more advanced nuclear technologies: breeders, high-temperature reactors, fusion?

Kubit: As yet, there is no country, not even the U.S.A., that foresees the broad use of breeders by the year 2000. Well, in the U.S.S.R., except for the Byeloyarsk plant—which is the biggest in the world, 600 MWe—there has still not been any decision to build more reactors. And until then, breeders will not be subject to trade negotiations.

With the HTR, the process is even slower. We can foresee the use of these reactors for production of heat for processes, such as the gassification of coal. But this is a theme for the future.

For the immediate future, the next 30 to 35 years, the pressurized water reactor will dominate. The size of the reactors will not be increased, merely more of them will be built. Efforts of scientists and technicians must be concentrated on unification, standardization in order to diminish costs of utilization and renovation of stations. There is a lot more to be done here, and a lot of new possibilities.

EIR: We think that development of [anti-ballistic-missile] beam weapons would start a new era in the nuclear field and spur a new technological revolution.

Kubit: I am not a politician. . . . I think it is the basic aim of all scientists to utilize all scientific means for full devel-

opment. I would like to see scientists solve the problem of using a higher degree of the energy of uranium. Right now we are using less than one percent of the energy content of uranium. We can use up to 79 percent. This is the task of the whole civilized world, because the lack of energy is affecting the world. This applies to industry too. In this area, competition is a wonderful platform, and thus it is what we have to aim at.

Interview: Bazyli Samojlik, senior economic adviser

Bazyli Samojlik is an economic adviser to Prime Minister Gen. Wojciech Jaruzelski. Dr. Samojlik explains his view of the short-term thinking behind Poland's application to join the International Monetary Fund (IMF), in this interview, conducted in December 1982 in Warsaw.

EIR: Poland is actively seeking to gain membership in the IMF. What is the reason for this?

Samojlik: Because of the level of our debt, our inability to pay, and the strong demand for credit for our most urgent needs, we are looking for every possible source of credit, even if it is on bad terms.

The issue of trade sanctions has made this question even more urgent. Generally, our possibilities of exports to the United States are not all that great. But what is more important is that because of the revocation of Most Favored Nation status by the United States, we cannot get [U.S.] credits for purchases.

We need credit. Our application to the IMF for membership is to be seen in that light. It is a possible source of credit. We are not that concerned about IMF control over the economy. Already, the degree of control by the IMF and the banks is huge. The foreign banks know more about the Polish economy than the average Polish citizen.

Nor are there things we are trying to hide from them. We are ourselves trying to change our economy. We don't think there will be any dramatic change after we gain IMF membership. In general, the approach they recommend for changes is the same as we are applying anyway. . . .

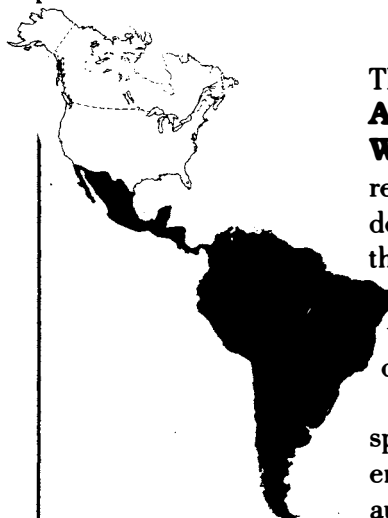
We know the standard IMF conditions, and we do have in our economic policy certain principles which will contravene the measures they demand. This might be a source of collision between our internal policy and IMF expectations. But, as I have said, our sources of credit are very narrow. . . .

I personally am very pessimistic about what we can get from the IMF, and about relations with the IMF in general, but that's mainly because I don't know what political conditions are attached.

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