Poland's illegitimate debt problem

As in Ibero-America, Poland was victimized by the 1979 Western trap—on top of Soviet looting and mismanagement. By William Engdahl.

In the recent pious pronouncements from various Western capitals about aiding Poland to become the first Warsaw Pact economy to make the transition from communism to a "market economy," nothing has been said about the prime reason, other than the incompetence of communist economic methods, that Poland is an economic catastrophe today. The West has locked Poland into the bankruptcy of Western monetarist accounting, ever since it lured Poland's government into the "promised land" of prosperity in the 1970s premised upon borrowing dollars and Deutschemarks to finance industrial reform. The actual details are worth reviewing.

First we must reexamine the history of Poland's Western debt crisis. During the mid-1970s, the Polish government of Edward Gierek, coming into power following a wave of protest strikes in 1970, launched a series of economic reforms and industrial projects with the promise of better times for the Polish people. The projects were largely financed with Western bank credits. By 1976 Poland, the largest and *potentially* most viable industrial nation in Eastern Europe, had contracted some $10.7 billion in hard currency debt. That year imports from Western industrial nations almost topped $7 billion.

By 1979, Poland's hard currency debt had grown to $17 billion. When compared with the size of foreign debt of Mexico or Brazil, this figure seems small. But there is a crucial difference. Since 1945 Poland has been a Soviet-occupied nation, with Russian tanks and bayonets enforcing its political and economic policy. Poland is not trading with merely Western nations, but is being ripped apart from both West and East. Its largest trade is with the U.S.S.R. So, by 1979, of the precious hard currency reserves Poland had accumulated to purchase needed Western machinery and other goods, the nation was forced to allocate $5.5 billion alone to service its $17 billion Western currency debt. As a share of its annual *hard currency* export earnings, Poland was already paying a staggering 74% for amortization of debt and payment of interest on the debt.

The price of inflation

Already by early 1979 Western inflation was soaring at 12-14% annual rates in key OECD economies. This meant, all else remaining equal, Poland was forced to pay 12-14% more each year for the same machine tool or farm tractor imported from western Europe or the United States.

But all else was not equal. In 1979 a Western "debt trap" was sprung. Poland was caught in the jaws of one of the most pernicious "scissors' crises" of recent history. Like many Ibero-American countries, Poland had fallen into the trap of taking "cheaper" bank loans via the London-based Eurodollar markets. Initial interest charges were noticeably lower, and were without the onerous domestic policy terms of loans from the International Monetary Fund. The loans, as with all such loans, had a small paragraph inserted by the banks: Interest rates were not fixed for the term of the loan; they "floated" as the London Inter-Bank Offered Rate (LIBOR) went up or down.

Before October 1979, few paid much attention to that fact. That October, Federal Reserve Chairman Paul Adolph Volcker imposed his "monetary shock" to prop up the U.S. dollar, then at a postwar low of DM 1.70. The high interest rates in the United States forced rates higher across the Western capital markets. Bank rates soared close to 20% levels. Debtors such as Poland suddenly saw their debt burden explode beyond belief: the wonders of Western banks' compound interest tables!

From interest levels of 9% in 1978, U.S. bank prime rates soared to almost 20% some 15 months later, in March 1980. This increased Poland's annual interest rate burden by more than 100%, or 150% of annual hard currency export earnings!

Background to unrest

This explosion of Poland's interest burden in 1979-80 was the real background to the domestic unrest, strikes, and government austerity. Imports were suddenly canceled in the midst of construction of new projects. In domestic Polish terms, new investment plunged 9% in 1979. Agricultural output also fell, imposing food shortages. By 1980 Poland had a collapse in meat production of almost 20%. That July the government increased meat prices by 90%. The lid blew off, as protest work stoppages spread, demanding compensation for the higher prices.

The Gierek government handled the situation poorly to say the least. By December 1981, on orders from Moscow, Poland imposed martial law under Gen. Wojciech Jaruzelski. In response, Western governments broke off debt reschedul-

© 1989 EIR News Service Inc. All Rights Reserved. Reproduction in whole or in part without permission strictly prohibited.

ing discussions. This gave a de facto "moratorium" for Poland until 1985, when martial law was finally lifted. This hiatus was the principal reason Poland's official hard currency debt remained relatively fixed in dollar terms, rising only from $25.4 billion in 1981 to $26.9 billion by 1984. Poland had almost $10 billion in arrears in payments to Western creditors by January 1985.

Rolling debt over dead bodies

But when Poland resumed Western creditor debt rescheduling negotiations in 1985, the devil ran wild again. By the end of 1986, Poland's government had concluded the third "rescheduling" agreement with the 17 Western governments in the so-called Paris Club of government creditors. West Germany, through its state "Hermes credit," was the largest such creditor.

Since 1985, Poland has gained apparent short term relief in various "grace periods" from Paris Club governments in the West, at an enormous cost of shifting current interest payments due to be added as principal for the total outstanding debt to be paid at some defined future date. This is called by Western bankers, "interest capitalization." It is one of the most insane and dangerous practices which have flourished in the international debt crises of the past decade in the West.

Because of Paris Club government agreements since 1985 to capitalize the interest due, Poland's hard currency debt has risen. Today, total Western debt, expressed in U.S. dollars, has soared to some $40 billion, some Western banks say even $45 billion, because of the various reschedulings. By end of of 1986, Paris Club creditors held some two thirds of Poland's total debt of $33.5 billion. Today, according to an estimate from Britain's Barclay's Bank, currently head of Poland's bank creditor committee, Paris Club governments hold 75% of Poland's total $40 billion hard currency debt. The growth of Poland's Western currency debt, from $25 billion in 1981 to $40 billion today—a nominal increase of 60%—comes from turning usurious and illegitimate interest payments due into principal due at a future date!

This does not account for the mismatch between Poland's debt being denominated largely in dollars, while most exports, which they use to get new hard currency to pay the debt, are to West German or related D-mark regions in Western Europe, for which they receive payment in D-marks or Swiss francs. Since February 1985, the time Poland resumed negotiations with Paris Club creditors, the dollar has plummeted from a high of DM 3.20 to a level near the postwar lows of the late 1970s, DM 1.75-1.85—a 44% drop! For Poland, this has been devastating. Not only must the country orient to so-called "hard currencies," but it is being destroyed by the instabilities among those same "hard currencies."

Since it re-joined the International Monetary Fund in June 1986, Poland has entertained a desperate hope for getting new IMF Standby Credits as a first step to large new infusions of World Bank "Structural Adjustment" loans. The IMF is sending the current Mazowiecki government the same disastrous austerity message it has given to every victim debtor nation since 1982: Slash imports and boost exports to repay the debt. To control resulting domestic inflation and eliminate state budget deficits, the IMF demands Poland freeze wages and devalue the zloty massively. The zloty has been repeatedly devalued since 1985, usually 20% at a time. This means in real physical economic cost that a Polish worker must mine 20% more coal to get the same value of German machine tools, or farm 20% more pigs for export to get the same value German tractor, after each devaluation.

But Western officials privy to senior IMF circles say Poland will get only peanuts in return for again committing national economic suicide. It will at most get an IMF credit of $700 million and, once it imposes IMF austerity, perhaps another $400 million World Bank loan in 1990. But the Paris Club debt burden will continue to grow. Clearly, if Western governments are serious about helping the nation of Poland feed and provide for its population, they will find a way to bury the old debt forever, as they did with West Germany in the 1952 London accord. After all, no matter how the Polish government may have misused the original amount, the vast majority of the debt is illegitimately being imposed on Poland by a Western financial structure which has changed the rules of the game repeatedly to suit the interests of select Western banks.

CONSULTING ARBORIST

Available to Assist in

The planning and development of wooded sites throughout the continental United States as well as

The development of urban and suburban planting areas and

The planning of individual homes subdivisions or industrial parks

For further information and availability please contact Perry Crawford III

Crawford Tree and Landscape Services
8530 West Calumet Road
Milwaukee, Wisconsin 53224