# U.N. sees East bloc in deep slump, but overlooks 'Triangle' solution

by Dean Andromidas

The latest bulletin of the United Nations Economic Commission for Europe (ECE) reports on how eastern Europe is in the throes of a 1930s depression, and that only an international, coordinated Marshall Plan type of program would avert further economic collapse. In its recommendations, the report advises against "shock therapy" as a means of bringing these countries into the market economy.

The United Nations-sponsored study confirms warnings by *EIR* over the last year and a half that if Lyndon LaRouche's Productive Triangle proposal is not implemented, the eastern European economic collapse will continue unabated. The report's warning comes late, very late.

The report specifically advises against the so-called "shock therapy" promoted by Harvard University's Jeffrey Sachs. It points to the failure of current policies of all the former East bloc countries, policies designed by Sachs. In contrast, the report advocates a cautious and layered advance in several stages toward the transformation to a market economy that takes into consideration economic, social, political, and cultural factors of the various countries.

The commission advocates a European reconstruction program modeled after the post-World War II Marshall Plan as the only approach capable of reversing the continued economic collapse. The report is strongly critical of the policies so far advanced by the European Community and the Group of 24 of the Organization for Economic Cooperation and Development. They are considered too piecemeal, and lacking in coordination and cooperation, when a well-targeted and concerted approach is needed to develop those sectors which are of the most benefit to the countries in question, and a long-term mandate for an effort that would take several years.

The ECE study underscores the sharp contrast between western countries' demands to the East Europeans to liberalize their economies while the West at the same time refuses to open up its markets to eastern products.

## The great depression of eastern Europe

During the last great depression between 1929 and 1933, American Gross National Product collapsed 29%. The ECE's study reports that the Net Material Product (NMP), representing the total value added to the economy apart from services, for all of eastern Europe will collapse by over 15% by the end of 1991. In 1990 it collapsed 10% and in 1989 by 1% for a three-year total of 25%. In the Soviet Union, NMP is estimated to have dropped by over 18% in the last two years.

Industrial production is falling even faster, with an average decline of 20%, a figure that excludes the former East Germany, where industrial production is forecast to fall by 50%. In the Soviet Union, a drop of 9% is expected by the end of this year, while Bulgaria, Romania, and Yugoslavia are considered far worse.

Comparative export figures for these countries underscore the continuing collapse. The collapse of Bulgaria's total exports exceeds 36% in 1991, including a nearly 33% collapse of exports to the western market economies. Romanian total exports collapsed nearly 15% for 1991. Although down from a collapse of 45% in 1990, the 1991 exports to the western market economies continued to collapse at a rate above 30%. Exports from the former Yugoslavia, which is now a war zone, have all but ceased.

Due to the overall collapse of the economies, it is not surprising that imports have also dropped in Bulgaria, Romania, Czechoslovakia, "Yugoslavia," and the (former) Soviet Union.

The collapse of production has led to dramatic rise in unemployment. Since the end of 1990, unemployment in Bulgaria, Czechoslovakia, Hungary, and Poland has more then doubled to reach 3.1 million by the end of September 1991. For all of eastern Europe, it is expected to top 7 million.

While a great deal of international attention has been given to the countries of eastern central Europe such as Poland, Czechoslovakia, and Hungary, it is in southeast Europe, in Bulgaria, Romania, the states of the former Yugoslavia, and Albania where the economic collapse is reaching catastrophic proportions. The result is for everyone to see, now that war is raging in Yugoslavia, as *EIR* warned two years ago.

The same ECE bulletin six months ago, in describing the catastrophic 20% monthly industrial collapse in Yugoslavia, warned that "the acceleration of economic downturn there is particularly ominous." "Ominous" indeed, given the fact that Jeffrey Sachs was the architect of Yugoslavia's so-called economic reforms, and that his shock therapy was clearly more of a shock than many expected. Sachs has apparently quit Yugoslavia only because Yugoslavia has ceased to exist, but is continuing to advise the individual republics. His cohorts were last seen in Slovenia, where the prime minister was attempting to force the Sachs reforms through a very reluctant government. This push by Sachs's backers occurred simultanously with the imposition of a European Community economic embargo against all the states of former Yugoslavia.

Perhaps the worst sign is that the United Nations continues to ignore the concrete plans that are on the table for eastern European reconstruction, in the form of the LaRouche Productive Triangle proposal. This proposal envisages building the most advanced high-speed rail and other transportation links to span the Paris-Berlin-Vienna triangle, so that it can function as the "locomotive" for a world economy by taking advantage of the concentration of skilled workers and productive capacity within that region. The curvilinear Productive Triangle encompasses much of the former German Democratic Republic, as well as the Czech and Slovak Federated Republic. Moreover, as the plan has been elaborated by the Schiller Institute, "spiral arms" of development would link this central European powerhouse to the rest of the continent with nuclear energy complexes, canals, rail links, and other vital infrastructure, without which there is only further collapse on the horizon for the former socialist bloc.

## Documentation

*Direct quotes from United Nations Economic Commission for Europe's Economic Bulletin for Europe, just released on Dec. 1:*

### On the collapse of general conditions

With continuing large falls in output and private consumption, rising unemployment and high rates of inflation, there has been a sharp increase in social and political unrest in many of the transition economies. Ethnic and nationalist disputes which had been suppressed under totalitarian rule, are being exacerbated by the persistence of economic deprivation and the lack of any apparent progress toward an improved state of affairs.

. . . For the average worker in the transition countries, it is the continuing hardships which are most apparent, and there is a growing danger that disappointment and frustration will undermine support for the reform process itself and increase the attractions of simplistic solutions. . . . In the Soviet Union and Yugoslavia [sic], ethnic and nationalist tensions have reached the point where neither federation controls the political and economic space of just a year ago and where the future contours of political authority are still uncertain.

### On the 1930s-style depression

The cumulative decline of net material product (net value added in the material sphere, i.e. excluding services between 1988 and 1991 in eastern Europe (including the former German Democratic Republic and Yugoslavia) is about 23%; in the Soviet Union it has fallen more than 18% in the last two years. In Hungary the NMP has fallen by some 15% over four years, but in the other countries the typical decline is more than 20% in the last two or three years. In Bulgaria the fall is nearly 30% and the former German Democratic Republic and Yugoslavia it is about one-third; for Yugoslavia the figure is significantly affected by the disruption caused by the outbreak of civil war. Between 1929 and 1933 real GNP fell by 29% in the United States and Canada and by somewhat small amounts in western Europe.

### Fall in industrial output

In eastern Europe the fall of industrial output has been even greater: The average decline for 1991 as a whole is expected to be around 20%—that excludes the former German Democratic Republic where the fall is forecast at about 50%. In the Soviet Union, an accelerating decline in the first nine months of this year points to a fall of some 9% for the year as a whole. Although drop in output is general, the falls are particularly severe in Bulgaria, Yugoslavia, and Romania. The Yugoslavia industrial output had already fallen over 17% in the first half of this year, before the disruptions caused by the civil war and before the imposition of European Community sanction on Nov. 9.

In Czechoslovakia, Hungary, and Poland the fall reflects the impact of tough stabilization programs (although their effect on output has been greater than expected) whereas in other countries the collapse is more a reflection of general disarray in economic structures leading to worsening shortages of industrial inputs.

### On inflation

Despite tough austerity measures, inflation in Hungary and Poland remains high and has accelerated since the summer: In September it was running at annual rates of 20% and 66% respectively. Elsewhere inflation was rising in September, at annual rates of between 3.7% in Czechoslovakia and 400% in Yugoslavia. . . .

### On popular opposition to reforms

A major uncertainty now surrounds the extent to which the populations will continue to bear the heavy costs of adjustment without outright opposition. It seems likely that social unrest will increase in 1992 and that in some countries there will be increasing presure to dilute or abandon the reform process. Such pressure will also lead to demands for better coordinated aid programs from abroad.

### On reducing import restriction

The reluctance of the western countries to the rapid dismantling of their import barriers to eastern products is in sharp contrast to their recommendations to the transition economies to liberalize as quickly as possible.