# Poland's Supreme Court rules IMF austerity unconstitutional

by EIR Staff

The Polish Supreme Court has ruled that two austerity measures, imposed on Poland at the behest of the International Monetary Fund (IMF), are unconstitutional. This startling development may well be a reflection in part of the influence of Pope John Paul II, who, during a visit to Poland last summer, invoked the heritage of Poland's Constitution of 1791 to emphasize the primacy of natural law, "for the sake of the public good," (see *EIR,* June 28, 1991.)

On Jan. 29, the Supreme Court struck down a freeze on salary increases for the 2.5 million public sector employees and workers, imposed by the regime of Prime Minister Jan Bielecki, which was voted out of office at the end of last year. The wage freeze, imposed in the beginning of the third quarter of 1991, led to a 30% drop in real income for employees of the public sector, given the rate of inflation.

Then on Feb. 12, the Court ruled that the Bielecki government's pension cuts have to be invalidated or revised, in order to comply with the Constitution's provisions protecting social welfare.

The new government of Prime Minister Jan Olszewski, which took office on Dec. 23, 1991, is now searching for a new economic policy, to replace the disastrous IMF "shock therapy" of the previous two years.

## Shambles of an economy

The draconian measures imposed by the IMF and Harvard University "flea market" economist Jeffrey Sachs are now threatening to completely paralyze the country. Hardly a day passes without new reports on closed factories, schools, or hospitals. In January, Poles had to accept a round of price hikes for heating and electricity ranging from 60-80%—the eighth or tenth such hike since the end of communism. Credit for industry and agriculture has remained inaccessible for most, with interest rates of 40-80%, and if a borrower is late on his payments, he is immediately slapped with a 140% penalty. Under these conditions, investment activity is at a low point, leading to stagnation in production and the exchange of goods.

As a result of austerity, the Academy of Sciences is going to be partially or completely dissolved, and concert halls, museums, and theaters are being closed, because operating costs simply can't be paid.

Poland's huge agricultural sector has the potential to make a great contribution to feeding people in the countries of the Community of Independent States (CIS) and the Third World. Even in 1990, Poland produced a 1 million metric tons surplus of grain. Through concerted investment in technology and infrastructure, Poland's agriculture could even become the driving influence for a powerful economic upswing. But instead, the European Community bureaucracy has made clear to Poland, that if the West's markets are to be open for Polish products, it will have to take 40% of its farmland out of production.

## Which way will the new government go?

Many people in the new Olszewski government are painfully aware of these facts. But how is Poland to free itself from the IMF's stranglehold? That is the question which has been debated during parliamentary and government sessions in recent weeks. The government's new economic program, which was presented on Feb. 17, dares for the first time since 1989, to express opposition to the so-called Harvard "shock therapy" program.

In an interview published in the German weekly *Der Spiegel* on Feb. 10, Olszewski underlined that the improvement of Poland's infrastructure is crucial for the national economic recovery. "We have to improve the infrastructure fundamentally," he said, "but at this moment, we're not even drawing upon credits that have already been granted for these projects. My government will give priority to confronting this problem."

The prime minister said that he wants to sign a temporary cease-fire agreement with the labor unions, to be able to construct a "safety net" for the lowest-income layers of the population and to launch the first phase of a recovery program. His government intends to stay in office for two or three years, he said, to be able to move Poland out of its crisis.

As the shock therapy of the past two years has used up the Polish people's patience and willingness to sacrifice, a different approach must be taken now, one that gives maximal social protection, said Olszewski.

Prime Minister Olszewski also told a news conference on Feb. 18 that the government would concentrate on measures to halt "the recession."

Although the new government's program remains vague, talking generally of the need to stimulate production and exports through more credit creation, its mere announcement that the task is to proceed first against "the recession," has already elicited strong counterreactions from the "IMF faction" in the political elites.

Finance Minister Karol Lutkowski tendered his resignation on Feb. 17, immediately following the announcement of the new program, with the explanation that revving up the economy would only lead to inflation. In an interview with Polish state radio, reported by Reuters, Lutkowski said he believed the plan's accent on anti-recessionary measures would only worsen the country's budgetary problems. "I have many basic reservations which prevent me from identifying myself with some of the economic proposals contained in the program," he said. "My most serious reservations, however, concern what I believe to be the basis of the program, that is, an emphasis on the need to create money at a rate faster than inflation and faster than the possible growth in national output."

But other forces, too, are ready to put boulders in the government's path. The Liberal Democratic Congress of former prime minister Bielecki, as well as parts of the Center Alliance, the party to which Olszewski belongs, invited Harvard guru Jeffrey Sachs back to Warsaw on Feb. 8, in order to jointly plot intrigues against Olszewski and to get the circles of Bielecki and his former finance minister, Leszek Balcerowicz, back into the government. They have been harping on the agreements made by Poland last year with the so-called Club of Paris. According to that agreement, Poland was promised a reduction of its foreign debt (all incurred by the communists), on the condition that for three years—until 1994—it would submit unconditionally to the IMF's regime. Every initiative in economic policy, e.g., expanded credit availability or additional budgeted expenditures, had to be approved by the IMF beforehand.

It is therefore quite clear that Olszewski will have to go much further than he is doing now with his vague economic program. A strategic initiative is now necessary if Olszewski is to survive politically, and his country physically. This strategic mooring must contain the following components:

1) The agreement with the IMF must be declared incompatible with the Polish Constitution, and therefore declared null and void.

2) The Polish National Bank must be put under the dictates of government policy, and must be made into an instrument of sovereign, productive credit creation.

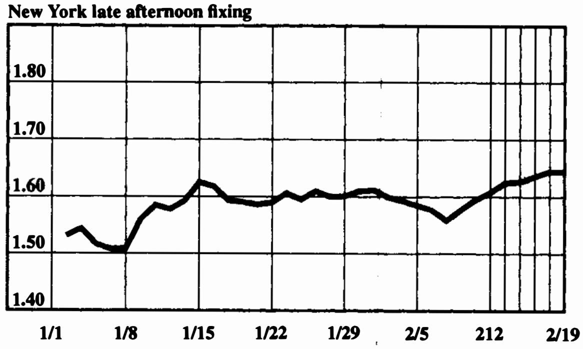
3) On this basis, targeted investment could be guided into industry, agriculture, and infrastructure.

Olszewski is assured of public support if he proceeds along these lines, and he can succeed, despite Poland's vulnerable position, provided he coordinates his policy with Czechoslovakia, Hungary, the Baltic nations, Ukraine, and Russia.

# Currency Rates

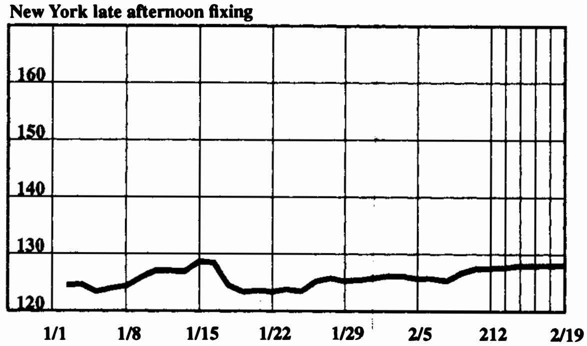
## The dollar in deutschemarks

New York late afternoon fixing



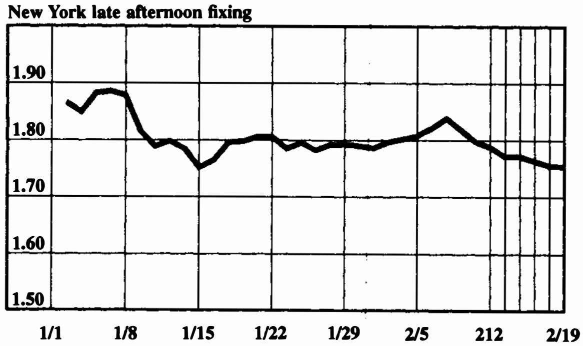

## The dollar in yen

New York late afternoon fixing




## The British pound in dollars

New York late afternoon fixing




## The dollar in Swiss francs

New York late afternoon fixing