which are here to assist us in market transformations. Next, the IMF supported us in our efforts for a debt reduction. The certifications by the IMF that we are dutifully implementing the stabilization plan, were necessary for the agreement of government lenders to the reduction of our debt by 20%, and conditionally by a further 30%. Backing from the IMF was also necessary, to obtain capital loans of $6 billion. And, at last, the IMF gave us the stabilization loan of $1 billion value to protect the exchange rate of the zloty.

Are IMF advisers worth the cost?

Is it worth it? The advisers from the IMF do not know the reality of the Polish economy and cannot help us. They only monitor the fulfillment of conditions stipulated by the letters of intent. The amount of debt due to government lenders was reduced so far by one-fifth, but for this, we are obliged to start paying interest again, and this year we have to pay in two installments, over $700 million (from the exhausted budget!). Out of the promised new foreign loans, only $200 million were actually obtained, as a result of difficult conditions necessary to use them, but a fee of 1% of the whole amount must be paid annually. Thus, this credit is very expensive. As to the stabilization loan, it was not at all necessary, and is an illusory assistance. In total, the benefits of having our economy under control of the IMF are meager and consist mainly of some political and psychological comfort, that the world-renowned institution assists us in transforming our economy.

This comfort is nevertheless very costly, as this stabilization policy brings us to ruin. The losses that we suffered because of the declining real income can be evaluated in dollars. The national income dropped by 25%, i.e. $40 billion, so it is several times more than what we received not only as real help, but even as promises. For the next year the government anticipates a further decline in economic activity and national income. However, the structure of production and branches of the economy changed only slightly. The recession turned out to be completely unproductive from the mere structural point of view. The structure of property of the economy, except in trade and services, also remained state-dominated.

What can be done, and is it possible to do anything? We have an emergency program for the economy, but we do not have a political setup for its realization. Perhaps the upcoming elections will change the situation. But we cannot rely only on this. We have to turn for help to those forces in the nation with intact authority. The Church is such a force, although it is not by accident that it is becoming now an object of growing attacks. The Church can legitimately voice its views on social and economic issues. The reason for this is the Social Teaching of the Church. In these hard months, we should hear the voice of the Church and its Catholic Social Doctrine: the voice against the crisis and against the policy which led to it.

The IMF and the illusions of 'free market' magic

by William Engdahl

The following is, slightly abridged, a speech to a group of East European parliamentarians and economists on March 7, 1992.

Unfortunately, one illusion prevalent in many countries of eastern Europe is that the International Monetary Fund will help to rebuild the damage of decades of Moscow-dictated imperial economic policy, that the IMF is somehow a "friend" which will help to improve the standard of living and foster industrial reconstruction. This illusion could well destroy the possibility of real improvement in eastern Europe if it is not addressed urgently.

On Jan. 2, the government of Russia imposed what is called "shock therapy" on its economy. Economics Minister Yegor Gaidar followed the program outlined for him by a radical circle of western monetarist economists, led by 36-year-old Harvard Prof. Jeffrey Sachs and Swedish economist Anders Åslund of the Stockholm School of Business. The Russian government proceeded to float prices on most food and other essential goods. According to eyewitness accounts, since January, prices in Russia for critical items have multiplied between 10 to 12 times their earlier "pre-shock" levels.

The program which Sachs demanded of the Russian government was worked out in direct coordination with the demands of the International Monetary Fund (IMF). In their December 1990 special report to the Group of Seven (G-7) on the U.S.S.R. economy, the IMF stated, "Ideally, a path of gradual reform could be laid out . . . but we know of no such path. . . . The restoration of financial stability will require a very sharp reduction in the deficit of the general government . . . absorption of excess money holdings [i.e., confiscation of private savings], a strong freeze on credit creation," and interest rates higher than inflation rates. The IMF report admitted, "Financial stabilization by itself does nothing to establish a market." The IMF demanded that this so-called "stabilization" be accompanied by a "rapid and comprehensive price liberalization" and "rapid progress toward trade liberalization." All this, they admitted, "cannot be implemented without an initial decline in output and em-

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ployment."

What is this IMF policy and what is the intent regarding the economies of eastern Europe today?

The 'Bretton Woods' system

The IMF, from its inception, has been a creation of a tight-knit group of countries dominated by the United States and Britain. In July 1944, some 44 allied countries met in New Hampshire and were arm-twisted or persuaded, sometimes with great effort, into approving a draft worked out by Britain's John Maynard Keynes and America's Harry Dexter White. No neutral countries were invited. Fully half (22) of the delegate countries, were from Washington's sphere of influence, including most of Ibero-America, Liberia, and the Philippines. Six more countries followed England as members of the British Empire (India, Canada, New Zealand, etc). It is little wonder then, that the resulting institution set the "rules of the game" for a postwar monetary system to the overwhelming advantage of the U.S.A. and Britain—an Anglo-American hegemony. The IMF and World Bank were to be dominated by a blocking minority control of the U.S.A. and England.

As of today, despite the clear decline of its economic importance, Britain still controls the second-largest share of votes in the IMF (6.6%), and by far the largest controlling share or vote is still held by the United States—19%. Under the IMF Articles of Agreement, London and Washington control more than one-quarter of total votes. The rules are written to allow this to be a "blocking minority," which effectively controls any attempts to change IMF rules. For key policy changes, a minimum 85% vote of members is needed. In effect, despite appearances of broad membership of more than 155 countries, no major IMF policy is decided unless Washington desires it.

Under these IMF rules, the risk of the newly liberated countries of eastern Europe and the nations of the Community of Independent States (CIS) losing their national sovereignty is every bit as great it was as under the Red Army occupation of Stalin. This may sound harsh, but I ask you to bear with me. Today, unfortunately—and I say this as an American—the policy of Washington is to use the IMF as an economic policeman to keep other nations from exercising real economic independence.

A Frenchman, Michel Camdessus, is the managing director, nominally the head, of the IMF. But the vital economic policy post at the IMF is always held by an American.

The man who controls IMF economic policy and determines IMF evaluations of each country's compliance is an American, an exponent of the radical monetarist dogma of Milton Friedman. His name is Michael Mussa. Mussa is only 47 years old, but, as economic counsellor and director of IMF economic research, he is literally responsible for the destiny of whole nations. His teacher, Milton Friedman, advocates a radical anti-government libertarian free market. Friedman has been the main influence on the radical deregulation of the U.S. economy under Ronald Reagan, and in Britain under Margaret Thatcher. Friedman's radical anti-government *laissez faire* policy ruined both the U.S. and British economies. The model for Friedman and his school is the military dictatorship of Augusto Pinochet of Chile, for whom he was the key adviser. This you can all confirm independently. But this is the kind of economics which dominate the IMF. Keep in mind also that the IMF has its headquarters in Washington.

The IMF as debt policeman

Ironically, towards the end of the 1970s, many in the West began to argue that the IMF had outlived its usefulness. Since 1977, no major western industrial country has drawn on IMF funds for balance of payments problems. Then came the Ibero-American and Third World debt crises in 1982, and Washington decided to use the IMF for a role quite different from its original, namely to ensure repayment of foreign debt by countries with a deficit of capital. This is what the IMF is attempting to force today on the economies of eastern Europe.

In 1982, the large New York banks convinced President Reagan to use the IMF as the policeman to collect the Ibero-American debts owed the banks.

Understand how this has worked: Since 1982, Third World debt has grown from $800 billion up to $1,300 billion today. But not one penny of new lending has been given to Argentina, Brazil, or other Third World nations. All loans are earmarked for "restructuring" of the unpaid part of the old debt, plus interest, added onto the future debt burden. The IMF has been at the center of this process every step of the way, as has Henry Kissinger and Washington. Yet, in six years, from 1980-86, the Third World had repaid $658 billion already on its foreign debt. They have been put in a suicidal debt trap. The only way out, as with Mexico, has been to surrender all vestiges of national economic sovereignty.

The IMF comes into a victim country and always says the same thing: Balance your payments, cut state spending. Why? To "balance" your payments. Then, it says, devalue your national currency. Why? To flood the world with cheap exports, to earn dollars, to repay the New York and London banks their debt. No matter that your economy desperately needs its coal or steel for national development, or food to feed your population. The IMF calls this program, "conditionalities." The banks call it a "debt workout." I call it genocide.

Yes, of course, the IMF promises some dollars in future aid—*if* you agree to IMF austerity programs. That is, at a cost which destroys a nation's sovereignty in a manner far more efficiently than the tanks of the Red Army ever did.

No 'reform,' no money

I cite the case of Mexico, which was forced to default on its debts when the New York and London banks, under Federal Reserve chairman Paul Volcker's policy, unilaterally

raised interest rates in the early 1980s. Mexico was then told by the IMF and those banks: Devalue the peso to export and earn hard currency, cut your domestic spending to pay the foreign debt. In 1982, Mexico could exchange the peso at 12 to the dollar. Today, it takes more than 2,300 pesos to buy one dollar. Mexico has surrendered its economic sovereignty to the dollar. To pay its debt, Mexico has been forced to open its economy to "free zone" production, *maquiladoras,* in which large multinationals like General Motors use dirt-cheap Mexican labor, often child labor, for assembling U.S. cars and trucks for re-export to the United States. Since the 1982 debt crisis, Mexico has lost half its normal industrial manufacturing jobs—2 million manufacturing jobs—and living standards and health levels have fallen drastically, all on IMF dictates for the New York creditor banks. Mexico is today hailed as the "model."

The idea of placing the IMF and its strict conditionalities policy at the center of policy on the Third World debt was an American idea, an exact copy of what J.P. Morgan and the Bank of England imposed under the Versailles Treaty and the Dawes Plan in the 1920s on defeated Germany. The IMF plan was developed by an American IMF economist, Irving Friedman, who was later rewarded with a top job at Citicorp. Friedman boasts of his role: "My thought was we would hold out the use of the Fund resources as a kind of carrot to countries. You first hold a very serious review of the country's economic situation. Identify the source of the difficulties. Then you point out what things have to be changed."

Thus, the IMF letter of intent is needed before any private bank or western government will even discuss loans with a debtor country. The letter of intent, or the so-called IMF conditionalities, demands savage domestic austerity, cutting state budgets, and devaluing currencies to incredible levels all to pay debts to western banks. The IMF calls this "balance of payments." It has nothing to do with helping improve the infrastructure and living standards of the debtor country.

Today, fortunately, there are more voices beginning to oppose the shock therapy policy of the IMF and their friends Sachs and Åslund, in addition to our own. I note public critiques from such as Dr. Melvin Fagen, former director of the Geneva Economic Commission for Europe, who has said bluntly, "Shock therapy is the wrong treatment." As well, the respected Vienna Institute for Comparative Economic Studies, numerous German bankers and businessmen including Axel Rebahn, former director of Deutsche Bank for eastern Europe, and Valtr Komarek of the Prague Academy of Sciences, to cite only a few.

Back in December 1989, the Schiller Institute circulated a white paper to friends in Poland entitled "Monetary Shock Policies of Jeffrey Sachs Will Destroy the Nation of Poland." That paper exposed the fraud of Sachs, who bases his claims of success on Bolivia, where even he admits that the Bolivian tin industry has been ruined and coca cultivation for international cocaine traffic is booming since his plan was imposed in 1986. Poland tragically has suffered more than two years of misery since the shock therapy was demanded by the IMF as a condition for renegotiation of Poland's debt.

Today, Washington, through the IMF, is demanding exactly these same Third World debt collection policies of the nations of eastern Europe—cut the state budget, privatize state industry. These demands have been suicidal for developing economies, in which a central state role is vital. They are equally absurd for eastern Europe. The issue is not, as the IMF or Sachs or Staffan Burenstam Linder and Åslund argue, "central government" versus "free market." The issue is what is the national economic policy of the country to be. No nation in history has ever successfully built its economy without the national government playing a decisive role. Sachs et al. and the IMF know this, but they play a cruel trick.

What they will never admit is that these same policies of radical "free market," or *laissez faire* in the West, have destroyed once-healthy industrial national economies. The two countries in the most severe economic crisis since the Great Depression of the 1930s are the United States and Great Britain.

Take the U.S. case. Since Paul Volcker imposed his shock therapy policy of high interest rates on the U.S. economy in the late 1970s, long-term government investment in infrastructure was ignored. Bridges began to collapse. Housing was left to rot. Unemployment was statistically "lied away" by the government. By the end of the 1980s, the America I knew as a young man growing up during the 1950s was no longer visible.

Such policies worked for a while, but now, the lack of real economic investment is taking its revenge. The United States and Britain are in the early stages of what will become, unless Lyndon LaRouche's economic leadership is allowed to change the policy, the worst economic depression of the century.

Already, in the United States, the number of those unemployed, unable to afford hospital care, addicted to drugs, and so forth, are higher than during the Great Depression of 1929-36. Officially, 31 million Americans today are living "below the poverty line." Already, the U.S. banking system is in a far more serious crisis than in the 1930s.

Since 1982, the U.S. government, under the Reagan-Bush so-called "economic recovery," has run up the largest state debt of any government on this Earth. The U.S. federal debt today is more than $3.5 trillion. And the amount of public and private debt owed to foreigners—foreign debt—is estimated at more than $600 billion. By contrast, the figure for the former U.S.S.R. foreign debt today is about $64 billion.

This is the real issue which is never mentioned in G-7 meetings or IMF missions. As the great Danish storyteller Hans Christian Andersen might put it, "The Washington emperor today has no clothes." But polite citizens fear to say

so. This is our special role.

In short, Washington, with IMF complicity, is playing a double standard. It demands a degree of economic austerity on the fragile emerging economies of the credit-starved eastern Europeans which it would never impose on itself. So long as Washington and London control the decisive power in the IMF, they think they can maintain this policy.

Two final items to note regarding the IMF. First, not every prosperous western country is even a member of the IMF. Switzerland, to this day, has refused IMF membership, not wanting to submit to supranational dictates. Second, Russia has been told by Sachs and Åslund that if it holds to its savage price shock policy, it will be admitted to the IMF as early as April when the Interim Committee meets in Washington. Russia is promised that then will come billions of dollars in ruble stabilization money and loans. But the U.S. Congress is refusing to approve a 50% IMF quota increase proposed since May 1990. There is little prospect it will act before the November elections, or even next year. Without this quota increase, the IMF is blocked from giving any funds to Russia or other CIS states. But the IMF and Sachs insist the "shock therapy" and austerity continue.

The most difficult thing, perhaps, for eastern Europeans to grasp is that George Bush's Washington, behind the scenes, has fought tooth and nail to prevent economic success in eastern Europe ever since the dramatic fall of the Berlin Wall in 1989.

The most difficult thing, perhaps, for eastern Europeans to grasp is the fact that, unfortunately, George Bush's Washington does not want eastern Europe to succeed economically. It does not want the emergence of an economic zone of prosperity stretching from Vladivostok to Rotterdam or Hamburg, not even from Kiev or Warsaw to Bonn. Washington, behind the scenes, has fought tooth and nail to prevent economic success in eastern Europe ever since the dramatic fall of the Berlin Wall in 1989.

The sad reality is that Washington is economically bankrupt, but holds onto its military domination in an effort to pressure western Europe and Japan to try to slow the process of development. It has adopted the foolish model of nineteenth-century British balance-of-power diplomacy—dominate the world through divide and conquer tactics. Continental Europe, centered around the industrial potential of Germany, especially were France to join Germany as a full strategic partner, would present the possibility of building the kind of rail and other vital industrial infrastructure vital to the development of eastern Europe, as LaRouche has stressed since November 1989. Washington is terrified that this might occur.

I cite a brief passage from an article by influential American policy strategist Henry Kissinger, in the March 1 German weekly *Welt am Sonntag*. Kissinger argues that France must stop opposing a larger American role in European defense issues. Kissinger states bluntly his view: "Germany [since unification] has grown so strong, that the present European institutions can no longer guarantee the 'balance of power.' It is in no one's interest were Germany and Russia to oppose one another. But *if both powers were to come too close*, this would create the danger of hegemonism."

Washington policy is to prevent at all costs the effective collaboration of Germany and continental Europe with eastern Europe—not only Russia. The policy fight goes back to the issues of the 1904-05 Russo-Japanese War, to the British efforts to abort the trans-Siberian railway project of Count Sergei Witte, and to British efforts to use Serbia to block and disrupt the German-Baghdad railway development through a series of Balkan wars in the years before 1914. Infrastructure and industrial technology are the real enemies of this Anglo-American balance-of-power policy.

Let me close with one quote to underscore my point on why the nations of eastern Europe must avoid the Anglo-American free market model, and look instead to the kind of national economic policy which Friedrich List, Henry Carey under Abraham Lincoln, and, today, Lyndon LaRouche represent—a third way between the radical extremes of Bolshevism on one hand, and Adam Smith free market policy on the other.

In January 1990, some weeks after the opening of the Berlin Wall, Wall Street economist David Hale warned of the dangers *if* the economic reunification of Germany and the transformation in eastern Europe were to succeed. Hale said, "One of the most extraordinary features of Wall Street economic research, during recent weeks, is its complacency about the potential consequences of eastern European economic developments for the global financial equilibrium which permitted America to borrow over $1 trillion from abroad during the 1980s. . . . When the financial history of the 1990s is written, analysts may look upon the fall of the Berlin Wall as a financial shock comparable to the long-feared Tokyo earthquake . . . an upheaval, which could ultimately divert hundreds of billions of dollars of capital toward a region which has been a minor factor in the world credit markets for six decades."

Washington and the IMF, in short, are doing everything possible to prevent the real success of eastern Europe's economic reconstruction, for this reason. This is why they give you Prof. Jeffrey Sachs, the IMF, and such wrong advice. Better to build your national infrastructure, and then demand of western Europe that they orient to you, and not to Washington.