

of the nation's budget was devoted to such social expenditures.

Industry, Government under Pressure

Since the banking system operates with an estimated 30% of "bad loans" and some 300 billion korunas debt burden, firms that do not have solvent foreign partners are now in danger of going out of business, because they have little ability to obtain commercial credit.

The structure of Czech industry has dramatically changed since 1989. The 135 large complexes which earlier constituted 90% of the country's industry are either bankrupt or have been broken up into small entities. A former industrial manager put it this way: "These industrial complexes survived the First and Second World Wars, but they did not survive ten years of freedom."

Today, multinational firms account for 40% of GNP and have a 60% share of exports. Volkswagen now owns nearly 100% of Skoda's auto production, and is expected to sell 440,000 of the Skodas produced in the republic, meaning that it has a 6.5% share of total technical exports. Other foreign firms produce nothing, but provide "services": McDonald's, Penny-Markt, Plus, Baumarkt, Leiser Shoes, etc., and their sales outlets can be found in every city and even in many small towns. But there are also interesting joint ventures, especially in the traditionally strong Czech mechanical engineering and machine-tool sectors, with medium-sized firms from Germany and other West European countries.

Under pressure from the crisis, it is no surprise that there is intense interest across the Czech Republic's political spectrum in the Ad Hoc Committee for a New Bretton Woods, and the related proposals from Lyndon LaRouche, to reorganize the international financial architecture and revive the physical economy. A delegation of the Schiller Institute, which met with political and business layers for discussions in Prague, was peppered with questions concerning the practical reorganization of a bankrupt banking system.

Prime Minister Milos Zeman, his social democratic cabinet, and 74 people in his parliamentary caucus, are in an unenviable situation. Following their close election victory in 1998, they formed a minority government which is tolerated by President Vaclav Havel and his ODS (63 seats). In this absurd situation, and with Havel waxing enthusiastic for U.S. Secretary of State Madeleine Albright's "Project Democracy" policies, there is scant room left for a real social democratic policy. For example, former Prime Minister Vaclav Klaus (1992-97) demanded a change in the cabinet, and the Minister for Regional Development as well as the Minister for Transportation were forced out, as the price for "tolerating" the government's 2000 budget.

However, on July 4, the cabinet decided to constitute a non-partisan subcommittee on the IPB affair, which is supposed to present its report within one year. Although a lot of water will have flowed down the Moldau by then, and new

financial crises will shake the Czech Republic and the rest of the world, still, some interesting connections between IPB and IMF darling Klaus will be unearthed.

'The Little Man'

The average citizen is also in an unenviable situation. Officially, unemployment dropped from 9.8% in January to 8.7% in May, but, in many of the north Bohemian and Maehran industrial areas, it is over 20%, with no prospects for improvement. Over 60% of the population earns less than the average income of about 12,000 korunas per month (about \$350), and the poverty line is about \$120. Various state expenditures for the unemployed swallow up 12% of the state budget. When the price of gasoline unexpectedly shot up, it not only hit the average consumer hard, but also the deeply indebted hospitals—not to mention police and fire departments—which had not factored these increases into their budgets.

The railway, one of the largest employers, has already announced that money to meet the payroll is running low. Many firms are no longer able to pay wages on a regular basis.

The crisis is also making itself felt in the form of stagnating population growth: Compared to the period before 1989, the number of births has dropped by one-third. In 1994, there were 106,579 babies born; in 1995, less than 100,000; in 1996, less than 90,000.

It is high time that politicians summon up the courage to change direction, because the Czech Republic has enormous scientific potential, immense engineering talent, and rich cultural traditions. In order to retain and recapture these, Czechs have to look forward to a positive future. The Czech Republic should produce high-quality machinery and machine tools, as an equal partner with Germany, France, Italy, and the few other countries which are currently capable of doing it, for those countries which urgently need these industrial goods for their industrial development.

IMF Hyenas Gather Around Romania

by Paolo Raimondi

In mid-April, the International Monetary Fund (IMF) forced Romania to accept a budget for this fiscal year of even greater austerity and more privatizations of state-owned enterprises. A few weeks later, the entire Romanian banking system reached the point of collapse, masses of people began a run on the banks, and riots and protests involving thousands of people exploded in every major city in the country. This wave of bankruptcies escalated at the beginning of May, when the

private International Bank of Religions was forced to close down in the wake of massive withdrawals by depositors.

Then, on May 25, the National Investment Fund (FNI), with 300,000 investors, ceased payments following rumors of a cash squeeze, which led the officials to suspend its operations. In the meantime, criminal investigations have been undertaken against leading FNI employees, who are accused of making discriminatory reimbursements at the peak of the crisis. On May 29, Romanian Commercial Bank, the top state bank with about 2 million customers, was hit by rumors of insolvency; several of its branches were immediately mobbed by hundreds of enraged customers demanding their deposits.

Finally, a cold panic struck the entire banking system, as the avalanche of bankruptcies picked up speed and volume.

On June 5, the Romanian Popular Bank (BPR), a large credit cooperative, overwhelmed with withdrawal requests, suspended all activities for six months. The Agriculture Bank, also in a disastrous situation, was able to resume lending only after Bucharest disbursed 120 billion lei (roughly \$5.7 million). In the first week of June, the hard-currency fund Gelson halved its assets, to \$1.8 million. And, just to give one more figure in this generalized financial collapse, over about six weeks, the Central Bank lost \$473 million, about one-fifth of its total reserves, and the lei lost more than 25% of its value.

In Romania's darkest hour, the IMF moved in, like a hyena sizing up its weakened prey, to put even more pressure on Romanian authorities: The (miserly) stand-by credit of \$540 million is about to expire and if you want an extension you have to make more concessions; otherwise, you are going to be totally isolated by the international financial community. Immediately, a terrified Bucharest approved an additional Letter of Intent for the IMF, in which the government promised to not consider cutting taxes, including the value added (VAT) tax, to not consider using public funds to compensate investors and depositors affected by the bankruptcies, and to speed up the privatization process, particularly of the banking sector.

'National Security Threat'

Since May 31, Romanian President Emil Constantinescu has held emergency meetings of the National Defense Council, which set up a commission to investigate the reasons behind the FNI and other banking collapses. The council declared that the panic around the collapse of the Commercial Bank represented a "threat to national security." The council also recommended that the cabinet proffer legislation to regulate investment schemes, which have so far enjoyed absolute free trade—no controls, setting the stage for the kind of thing that happened in 1997 with the Albanian financial pyramids, in which millions, 70% of Albanian families, lost their savings.

Prime Minister Mugur Isarescu exposed the existence of a group of behind-the-scenes manipulators on May 30, whom he accused of sparking the banking crisis, and of spreading

rumors and disinformation through anonymous phone calls. Some media have confirmed the existence of this campaign.

While it should be clear that the Romanian banking crisis is the result of the IMF's enforcement of deindustrialization and rabid free-market policies, one must also take these dirty operations very seriously. A central point in any IMF conditionalities, is privatization of a nation's state-sector, and international speculators, with their local camp-followers, are very anxious to buy up Romania and its banking system at fire-sale prices. Operations such as these offer further confirmation of the hideous role of the IMF in the financial disasters that occurred in Asia and Russia, where speculators such as George Soros collapsed the national currencies and looted the countries, as the IMF hyenas watched and laughed.

It is also well known that the old Communist secret police, the dreaded Securitate, still have their networks in place. These are very active, and involved in some of the dirtiest alliances with the financial mafias. They specialize in dirty operations, rumor campaigns, and in exploiting social unrest (especially if it's justified), particularly in view of the general elections in November.

Reflecting the tumultuous situation, President Constantinescu made a surprise announcement on July 17, that he would not run for reelection, because there was no prospect of fulfilling his political mandate in a system that he has been trying to change since his election in 1996, but which was bogged down in "limitless corruption and intrigues." Further, he said, he is withdrawing from both Parliament and party politics: "When I threw myself into the fight against corruption, I discovered a mafia system in Romania, in which a web of front operations were backed by the highest state institutions." Intimating an international element to this mafia operation, he continued, "This is how banks have been robbed, the Navy has been destroyed. . . . We live in a world where everything is for sale: principles, ideologies, Parliament seats. I have no place in that world."

The morning before his announcement, Constantinescu convened a special meeting of the government to discuss the fraudulent use of money lent by the international financial institutions (e.g., the IMF). In fact, some of the Cabinet members themselves are charged with corruption in the privatization of the state corporations, such as Agriculture Minister Ioan Muresan.

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