The solution to the Polish crisis

by David Goldman

Soviet leader Leonid Brezhnev's April 7 reassurances concerning the ability of the Polish communist party to maintain internal stability reduced the short-term likelihood of a Soviet invasion, but left most of the international community unsettled. Between April 3 and April 6 a bewildering series of contradictions emerged from official U.S. pronouncements about the possibility of a Soviet move into Poland, until Brezhnev settled the issue himself.

On Friday, the State Department warned of an "imminent invasion," an evaluation refuted the following day (April 4) by the White House press spokesman. By Sunday Defense Secretary Weinberger spoke of an "invasion by osmosis" and intimidation rather than a "conventional invasion," and on Monday the State Department reversed its previous evaluation.

Granted that the danger was not contrived by Secretary of State Haig, why didn't the Soviets march in, and what will stop them from doing so in the near future? It is not sufficient to say that the crude but clever Soviet campaign of mass intimidation has worked, at least for the moment. Without the prospect of finding a means to stabilize that nation in the long term, the Soviets would have already sent Warsaw Pact troops into that city.

Crisis is economic

What is usually ignored about the Polish crisis is that *crises of national existence* of similar form are endemic throughout the semi-developed and developing sector. The combination of higher oil prices and, more importantly, much higher interest rates that appeared in the second and third quarters of 1979 wrecked the basis for economic existence of about half the national economies in the world. Poland deserves special attention because it is a member of the Warsaw Pact, and because the political ramifications of that crisis could turn the world on its head.

But the long-term consequences of the parallel crisis in the developing sector are not materially different. *EIR* has argued since our founding that the principal danger of global nuclear confrontation begins with the economic destabilization of large areas of the globe of strategic interest to

Modern combines in Poland: many more are needed to salvage the debt.

both East and West. This understanding has also been the fundamental concern of French and West German diplomacy since 1978, as well as the principal stated concern of developing sector leaders such as Mexican President José López Portillo and Indian Prime Minister Indira Gandhi.

Poland's Solidarity movement would not exist without the bread-and-butter problems occasioned by the miserable state of the Polish economy. Although the last six months of strikes have damaged Polish output, the principal cause of the economic downturn is foreign debt service. The pressures of raising the $7.5 billion Poland is due to repay this year (but cannot repay in full) have forced reductions in raw materials purchases and consequent production declines.

This short-term crisis occurs in the context of long-term undercapitalization of the Polish economy, especially agriculture. The heritage of the "Marxist Keynesians" Michel Kalecki and Oscar Lange, who steered Poland in this direction starting in the 1950s, suppressed Polish living standards. What led, however, to the dangerous drop in consumption levels over the past two years is the effect of international market conditions on Poland's foreign debt. More than any other East bloc economy, Poland is susceptible to adverse changes in the international credit market. That is the origin of Poland's susceptibility to internal destabilization, if not the cause of the immediate destabilization itself.

Western Europe's combination of political and monetary diplomacy are first directed towards the underlying causes of the "Polish problem," actually a much broader problem, and only secondarily toward the short-run contingency of dissuading the Russians from hasty action. Up front, of course, is Europe's leading rôle in reorganizing the Polish debt and providing essential food aid, as detailed in this special report. On April 9 the governmental creditors will meet in Paris. According to well-informed U.S. sources, the likelihood is that a French plan (with West German backing) for a 2½ year moratorium on principal and interest, a further 2½ year moratorium on principal, and a still further five-year stretch-out of principal payments will be adopted, despite U.S. objections since the U.S. is only a junior creditor. In conjunction with $600 million in food aid from the EC and additional large aid from France, these debt proposals are sufficient to avert a short-term economic catastrophe.

Restabilizing Poland

However, the issue is *not* the short-run economic restabilization of Poland as such, and the Europeans are not buying time by paying tribute to the Soviet beast (as the State Department sometimes suggests). As the Swiss daily *Neue Zürcher Zeitung* explained with embarrassing frankness April 6, "Even if it involved a bit of martyrdom, Poland would be economically restabilized following a Moscow intervention. Would Western complaints about the rape of a nominally independent country intermingle, then, with sighs of relief about the salvation of Poland's ability to repay?" By far, the simplest solution from the purely economic standpoint is to have the Soviets assume hands-on management of the place. Nothing could be more inimical to Poland's chances of economic recovery than the decentralizing program offered by the Solidarity union.

Generating credit

What makes the European debt moratorium plan significant in Russian eyes is the included prospect for revived economic growth in Poland. The big issue is not whether Poland will repay its foreign debts. The question is, who will put in the new money the country requires for the re-starting of production? The Eurocurrency markets, virtually swamped by debt renegotiations in a dozen locations, will not.

But the French and Germans have created the mechanisms for the provision of such credit in general, and therefore to Poland in particular. That is the only way it could possibly work. The behavior of the German cabinet over the weekend of the crisis is exemplary. While American commentators spent their time on the "will they-won't they" of the Soviet attack, the Germans deliberated on the $7 billion credit which they are now raising jointly with the French.

What is extraordinary about the Franco-German deal with the Saudis is that, unlike last year, the motivation for the credit is not to patch the holes in their current account payments positions. The Saudi funds will be used for long-term, low-interest investment in the French and West German economies.

In effect, the West Germans have instituted a two-tier credit system in their own country favoring a rapid increase in industrial productiviy. The Schmidt government is attempting to create the economic conditions under which the Polish economy, as an aspect of the European economy, can thrive.

Although the form of the Franco-German "community loan" specifically avoids a bilateral agreement with Saudi Arabia—largely for domestic electoral considerations in France—the loan nonetheless created international shock waves. According to State Department sources, Secretary Haig did not miss the coincidence of timing in the loan: President Giscard and German Economics Minister Lambsdorff made simultaneous announcements the same day Haig left Saudi Arabia with nothing in his pocket but his airfare home.

The form of lending begins to answer the problem of stagnating West German industrial productivity. As *EIR* has emphasized, the reason for the weakness of the West German mark in the past six months is not only the discrepancy between U.S. and West German interest rates, but the creeping expectation that West Germany's industrial miracle has finished. The Germans, still the largest exporter in the world, need a general renewal of their capital stock, and the "community loan" is an important if still symbolic move in this direction.

In turn, the monetary cooperation the Europeans elicited from Saudi Arabia depends on Europe's assumption of additional strategic responsibilities in the Persian Gulf. The importance of the security issue is all the greater after the miserable collapse of U.S. Secretary of State Haig's efforts in the Persian Gulf last week. From the Saudis, Haig drew only an unqualified rebuff to his suggestion that the East-West conflict should overarch regional issues in the policy of area governments. The European role in the Gulf is now central.

In an April 7 interview with the *Süddeutsche Zeitung,* Chancellor Schmidt predicted with some confidence that the expansion of economic relations with the Gulf would revive the capital-goods sector of German industry. It already appears that an improvement in the foreign order books of West German companies may lead to an economic recovery during the second quarter of modest proportions, at the precise moment that the U.S. economy is gathering downward momentum.

East-West relations

This is the indispensable background to the sudden improvement in Soviet-West German understanding. In one form or another, this is what West German foreign minister Genscher brought to Moscow in his trip April 2-3, and what Soviet leader Brezhnev responded to with his proposal to visit Bonn soon. That is what gives the Europeans the necessary confidence to take charge of the Polish debt negotiations, and the ability to provide new credits for Poland's economic recovery.

It is still important to emphasize the tenuousness of Poland's and the world's situation. Should the Europeans fail to persuade the United States to abandon its current meat-axe monetary program, and the global damage it inflicts, the international monetary situation will take a turn for the extreme worse, no matter what sort of directed credits the Saudis provide. The Polish situation, the Persian Gulf situation, the Lebanon situation and other potential flashpoints are still delicate in themselves. But what makes the overall European stabilization program hang together is the Franco-German promise of a solution to the world monetary crisis. The Federal Reserve can still do a huge amount of damage to the world economy. In the worst case, it could throw Europe's efforts back to a defensive program to defend a regional currency bloc after a general shakeout on the international markets.

Under those circumstances, the stability of any of the weaker regimes in Europe and elsewhere would be questionable, and the Polish situation itself would be dangerous and unpredictable. Europe's finance ministers will "ask some tough questions" of the Federal Reserve at the April 10 meeting, as the Swiss newspaper puts it. That is important for world security in a way U.S. policymakers have not yet seemed to grasp.