Polish cataclysm will destroy the 'New Yalta' deal

by Webster Tarpley

Second in a two-part series. Part I documented the structural weakness of the Polish economy under successive communist regimes up to the current year.

Enter, toward the end of 1988, the pro-Gorbachov "reform Communists" around Mieczyslaw Rakowski, determined to graft the worst excesses of Western usury onto the worst failures of Stalinist centralized command economy. By early 1989, during the roundtable talks with Solidarnosc, according to minister Wilczek, "Poland is now paying what appears to be the highest rate of interest on capital in the world"—9% on long-term hard currency deposits. According to Rakowski's deputy prime minister, Ireneusz Sekula, "Polish enterprises have one basic and major task: to make money." Other ministers were promising a stock market, a bond market, a capital market, auctions of hard currency, and treasury bills.

Poland was already proceeding under the draconian "structural adjustment" dictates of the International Monetary Fund (IMF) and the World Bank, which were demanding that the standard of living be lowered by about 12% immediately. The reform communists began to shut down non-profitable state firms, and fire their "redundant" employees. The magic of the marketplace was introduced for foodstuffs in the last days of Rakowski, on Aug. 1, with all price controls and most subsidies removed. Franciszek Gaik, minister and head of the Central Planning Office, said that his "planning is rooted in moving from material planning to integrated long-term financial material plans; . . . We believe that focusing exclusively on the material side of the plan makes no sense. We should aim at a purely financial nature of plans in such a short time span."

In short, the Rakowski "reform communist" regime was already going monetarist with a vengeance, with predictable social explosions looming. In August, Gorbachov and KGB chief Vladimir Kryuchkov forced Solidarnosc ministers to assume the government virtually at gunpoint, against the advice of Lech Walesa and his Catholic associates. Tragically, once the Solidarnosc ministers had taken over their portfolios, they had nothing to offer in terms of economic policy except more of the same—the continuation of the Rakowski reform communist monetarist line.

In mid-October, Solidarnosc unveiled a deflationary economic program calling for free market mechanisms, sales of state property, elimination of food subsidies, a credit crunch for industry, shutting down part of the state sector, holding down wage increases, an income tax, a value added tax, and currency, capital, and stock markets. Solidarnosc Finance Minister Balcerowicz, described as a free trader, is predicting 10-20% unemployment and an industrial recession for at least one year.

It might be argued that hyperinflation would be occurring now in Poland no matter what the policies of the Solidarnosc coalition government were. There is much truth in this. But the political damage is done when the Solidarnosc ministers defend the austerity measures, and assume full political responsibility for them, letting the Communists and the Russians off the hook.

What kind of a movement comes to power to implement this kind of a program? Of Solidarnosc much could be said, starting with the fact that it is not a movement united around a coherent world-outlook, but rather a grab-bag of heterogeneous factions united by various shadings of opposition to the Communist regime. Solidarnosc has Christian Democrats, of the De Gasperi or Adenauer variety, and Roman Catholic clergy continue to play an important role, despite the numerous assassinations of priests carried out by Gen. Czeslaw Kiszczak's Interior Ministry. Then there are social democrats, free-market liberals, freemasons, Trotskyists, anarcho-syndicalists, and crypto-communists, many of whom joined when the exercise of power was imminent. The influence of the Socialist International and of the U.S. AFL-CIO has been strong in making Solidarnosc what it is: The CIA, acting together with Willy Brandt and Lane Kirkland networks, has done everything in its power to wreck the Roman Catholic pro-natural law faction, especially by funding the latters' rivals. The Anti-Defamation League and Edgar Bronfman have contributed the past summer's Auschwitz affair, which was engineered to isolate Cardinal Jozef Glemp, the Roman Catholic Primate of Poland.

Given these institutional forces, and with a little help from the International Institute for Applied Systems Analysis (IIASA) in Laxenberg, Austria, the economic line of Solidarnosc is coherent with the demands of the IMF and World Bank. But the biggest embarrassment for Soldarnosc has been Harvard economics professor Jeffrey Sachs. Sachs has attached himself to Solidarnosc like the proverbial capitalist leech, claiming to be its leading economic adviser, with eight visits to Warsaw since last April.

Sachs is a Yuppie version of Hjalmar Schacht, Hitler's economics minister. His program is a savage monstrosity that will fail in every respect, except perhaps in reviving some nostaglia for the Nazi SS, whose depredations will seem pale by comparison.

U.S. abrogates its responsibility

Part of the desperation of Solidarnosc is the refusal of the United States, the world's largest debtor nation, to provide meaningful aid. When Bush went to Poland, he promised a miserable $100 million in aid, just $2.50 per head for 40 million Polish citizens. Of that, only $10 million was actually in last year's budget. The Congress wanted to increase that figure by four to five times, so on Oct. 4, Bush agreed to provide an additional $100 million for agriculture and $100 million for the private sector, but only if IMF conditionalities are strictly observed. U.S. emergency food aid as of Sept. 14 was set at a pathetic $100 million, just $2.50 worth of food for each Pole.

Instead, the Bush administration has been prodigal with advice. Walter Mondale was sent to explain democracy, as was Sen. Bob Dole (R-Kans.). Secretary of Agriculture Clayton Yeutter, an agent of the grain cartel, union-busting Secretary of Labor Elizabeth M. Dole, leveraged buyout corsair and Secretary of Commerce Robert Mosbacher, and LBO ideologue Michael Boskin of Bush's Council of Economic Advisers will now be sent over, along with Lane Kirkland of the AFL-CIO and several academics. That was the centerpiece of Bush's Rose Garden extravaganza for Polish-American Day. If the Poles want lessons in fast-buck speculation, financial parasitism, and political hucksterism, they will be getting the right team.

The principal economic policymaker of Solidarnosc, Prof. Witold Trzeciakowski, had hoped for something better from the United States. He had asked for an aid package of $10 billion, later scaled down to bank branches with $10 billion in deposits to furnish credit. Finance Minister Balcerowicz has now scaled that down even further to a stabilization fund of $1 billion from all Western governments.

I had the occasion of meeting Professor Trzeciakowski in Warsaw back in April of 1983. We talked in his office at the Polish Academy of Sciences, before which there stands a statue of Copernicus. Trzeciakowski listened politely for more than an hour while I presented an outline of the LaRouche-Riemann economic method, and offered some prognostications for the Western world that clearly struck him as pessimistic. Later, he kindly offered me a ride across early springtime Warsaw in his small Polski FIAT. Professor Trzeciakowski is a Polish patriot, as reflected in his bitter disappointment in the failure of socialism and his remarks that the Soviets had deprived Poland of its army, its national economy, and much of its wealth, including by such stratagems as raising the price for Soviet petroleum deliveries. He asked me if I had been in contact with the IIASA, about which I offered a very negative opinion. Trzeciakowski's views seemed to have been formed during the heyday of the illusions around Thatcher-Reagan economics, and would thus appear increasingly dated as the Thatcher-Reagan policies were revealed as bankrupt.

Shock fronts through economy

The effect Communist-Solidarnosc reforms has been to unleash a series of shock fronts through the Polish economy, especially in terms of inflation and shortages. Inflation during 1988 was estimated by the Mieczyslaw Rakowski government as about 70%, but it has now risen to over 40-45% per month and, in the opinion of visiting former French President Valéry Giscard d'Estaing, is now in danger of reaching 1,000% for all of 1989. Many Poles earn between $30 and $50 per month.

The first shock wave came right after food prices were decontrolled by the Rakowski regime on Aug. 1. This is a step that reform Communists have always been reluctant to take on their own responsibility. In August-September of 1988, the Communist Chinese regime led by Deng Xiaoping turned back from this precipice, rejecting the demands of Zhao Ziyang for "price reform." During his first few years in office, Gorbachov and his lunatic "economists," Viktor Abalkin and Abel Aganbegyan, talked about decontrolling the prices of bread and other staples. Those radical price increases and related marketization measures, according to the latest word from Abalkin, have been postponed until the start of the next Five-Year Plan in 1991.

But Rakowski, knowing he was about to cede power to a non-Communist political formation, made the fateful step. A shock front began to propagate through the Polish economy. By mid-August, widespread panic was reported among consumers. By mid-September, the price of milk had risen by 1000%, the price of beef by 800%, and the price of sugar by 40%. Also in mid-September, the price of diesel fuel, one of the key energy inputs into Polish agriculture, was up by 60%. This price hike was immediately condemned by the Union of Farmers' Circles and Organizations, which said it had not been consulted. At about the same time, liquor prices went up by 120% and cheap vodka by 100%. In mid-October, tobacco prices went up 65%.

A second shock wave seems to have appeared during the first days of October, with the implementation of further price increases on the order of about 500% in the dairy sector. These came as all remaining food subsidies were abolished.

These brought the price of butter up to a 900% increase over the Aug. 1 price level. On the single day of Oct. 2, the prices of milk and other dairy products went up 70% in Wroclaw. According to *Gazeta Wyborcza,* the Solidarnosc paper, of Oct 1., "prices have gone crazy." On the same day, it was reported that the price of bread in Warsaw had jumped for the fifth time, in this case by 20%. On Oct. 3, Giscard told *Le Figaro* that he had seen an "economic earthquake" in Poland.

Farmers, already reeling under the impact of higher fuel prices, are now experiencing shortages of fertilizers and animal fodder. In mid-October, Ursus announced price increases on its tractors.

A third shock front seems to have hit during the last days of October in the fuel and heating area. On Oct. 30 the government announced that coal subsidies were being cut. Previously, the government had kept the domestic price of coal at 60 to 70% below the $45 per ton commanded by Polish coal on the international market. The domestic price would now levitate sharply upward. In addition, the cost of electricity was raised by 150%, natural gas by 100%, and heat and hot water by 50%.

An eloquent apostle of austerity is Trotskyist Jacek Kuron, now the labor minister. Kuron now gives a nightly fireside chat on television, urging the population to stand firm in the face of privation. Food stamps, which have been introduced in an attempt to cushion the impact of the galloping price inreases on the poorest Poles, have been dubbed *kuronki* by the Poles. After a visit from an IMF representative, Kuron ranted that "the most urgent issue of today is to balance the budget and that we must cut the real wages in the first place, since no one in the world has so far managed to curb inflation without cutting real wages." That may be what the IMF and Comrade Trotsky preach, since both of these agree on the need for primitive accumulation, but the real world looks different. The physical phenomenon of inflation has only one cause: insufficient production. It has only one cure: to increase production, and cutting real wages is no way to go about increasing the productivity of a labor force.

The Polish currency, the zloty was quoted six years ago, in September 1983, at about 95 to one U.S. dollar. By Aug. 19 the dollar was trading at 7000 zlotys, and since then the Polish currency has been subjected to three devaluations amounting to about 40%, including a 20% devaluation on Sept. 29 and a 12.6% devaluation at the end of October.

The volume of sold production in the state sector declined by some 6.7%, according to government reports. Coal production, in particular, is expected to be down 1.5 million tons in the fourth quarter of this year, compared with the fourth quarter of 1988. It is estimated that Poland may experience an electricity shortfall of 3,000 megawatts, the equivalent of 15% of the capacity presently on line. Brownouts and blackouts will be unavoidable.

Solidarnosc forced to take responsibility

It is clear that, after the period of the roundtable talks, Solidarnosc was forced to assume the responsibility for government ministries under orders from Gorbachov and his thug enforcer, Kryuchkov, who visited Warsaw during the formation of the Tadeusz Maziowiecki government.

The most lucid observer of these matters has been Lech Walesa himself, who resisted Solidarnosc's participation in a coalition government in the first place, and then loyally shouldered the task of convincing workers to end their strikes and support the new government. He has repeatedly called on the entire Western world, and especially on such countries as the Federal Republic of Germany (which he visited) and the U.S.A. to meet their responsibilities in aiding Poland. At the same time, he has warned against the "evil aspects of capitalism," which should not be imitated by Poland. Walesa has described Poland as being "on the brink of an economic catastrophe," and has singled out foreign debt payments as one all-important factor. On Aug. 27, Walesa noted that "Poland's situation is dramatic; the Poles have only a half-year, maybe a year, to solve their economic problems." On Oct. 5, Walesa told a press conference: "Society is furious and fed up. People curse Mazowiecki and Walesa because they do not understand what is going on. I repeat once more that Poland is threatened with civil war, like the whole bloc."

As for the Communists, they are preparing their counterattack. In an Oct. 20 statement, the Communist OPZZ trade union leadership began posing as the true defenders of the living standards of the working masses: "It is not enough to appeal for easing the hard life of the jobless and the poorest through charity aid, which offends dignity. Healing our economy will not be successful if it is introduced against society and without its acceptance." Some days later, a Radio Moscow commentary picked up a similar threatening note: "The honeymoon is over in Poland between the Solidarnosc government and the [Communist party] Polish United Workers Party. . . . The party's Politburo is particularly set against attempts by the government to eliminate state property . . . and the Warsaw party committee has charged that the poorest people are bearing the brunt of the crisis. Many people see Solidarnosc as engaged in the restoration of capitalism."

With the Communists still in firm control of the defense and interior ministries, plus transport and foreign trade, and with all government bureaucracies staffed by dyed-in-the-wool Communist appointees, the arbiter of the situation appears to be Gen. Wojciech Jaruzelski, the President of Poland and former Communist Party boss. From this point of view, everything is ready for a bloody crackdown, far surpassing the imposition of martial law in December 1981.

When might such a crackdown come? This depends on events which are unforeseeable. But it is certain that this is what the hard-line Communists are contemplating. In the spring of 1983, in Warsaw, I had occasion to pay a visiting journalist's courtesy call on the Communist press relations official Konopacki, who at that time was the deputy to Jerzy Urban, the spokesman for the martial law regime. Konopacki described his principal job as monitoring the psychological mood of key circles and strata of society in the Polish capital. Konopacki described the Poles as emotional and unpredictable, tending usually—but not always—towards depression in the winter, and toward outbreaks of euphoria or rebellion in the springtime and warmer weather. Konopacki added that the most dangerous time of year was the second half of April, when spring could burst upon the capital with the most unpredictable political consequences.

A chance for Poland

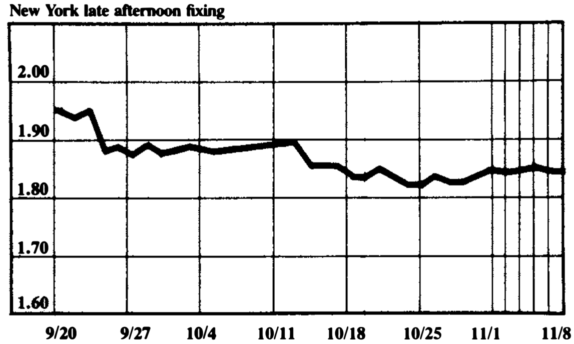
A rational recovery program for Poland would include a commitment by the government to provide infrastructure, and to provide cheap credit for agriculture, industry, mining, construction, energy production, scientific research, and other strictly defined productive activity—not for speculation or financial services. The economy must be seen in strictly physical terms, in terms of market baskets of producer goods and consumer goods needed to reach an overall level of productivity of labor. Poland needs immediate freezing of all foreign debt payments, followed by the opening of long-term lines of credit for the purchase of capital goods abroad. The priorities for those capital goods must be determined according to the bottlenecks of Polish production, with a view to increasing productivity of labor. Poland will run a foreign trade deficit for many years, and balancing imports and exports cannot be a policy goal for the foreseeable future. Bank branches set up by Western banks make sense if they are staffed by real bankers, capable of judging the viability of development projects. Because of the world economic crisis, swaps and barter deals for key commodities with other countries should be set up, all outside IMF surveillance.

The last chance for aid to Poland that might head off a tragedy of world-historical proportions would seem to be around the middle of November. Mazowiecki, visiting Pope John Paul II in Rome, stressed that Poland needs emergency aid, and that, in order to be meaningful, that aid will have to begin arriving by the middle of November at the latest. Mid-November is the time when Lech Walesa will be visiting the United States, the time when a direct appeal to the American people and to the Congress, going over the head of the Bush administration, might produce results *in extremis*. Mid-November is also when the German federal chancellor, Helmut Kohl, visited Warsaw. He will return Nov. 11 and will sign a 3 billion deutschemark government-backed credit line on Nov. 14.

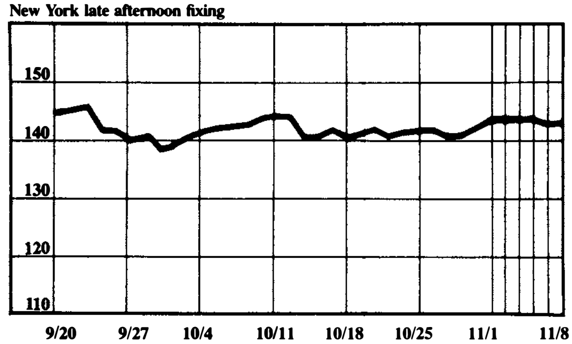
Mrs. Helga Zepp-LaRouche has proposed a five-point program to save Poland (see page 6). All persons of good will around the world must now join in an eleventh hour mobilization to make this program a reality.

Currency Rates

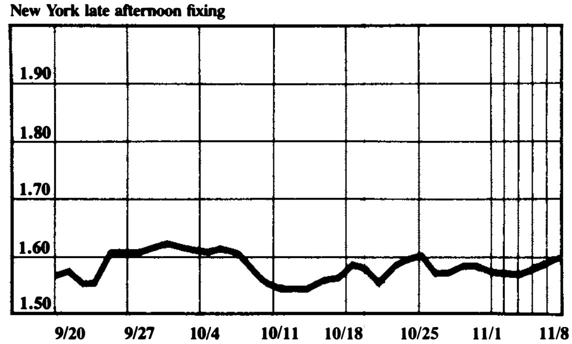
The dollar in deutschemarks
New York late afternoon fixing



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