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## Croatia's 'Economic Messenger'

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# Has 'shock therapy' helped East Europe?

*The following report on the Schiller Institute conference on the LaRouche "Productive Triangle" proposal to reindustrialize post-communist Europe, which was held in Berlin on Nov. 22-23, 1991 appeared in the Croatian daily Privredni Vjesnik (Economic Messenger) of Feb. 24, 1992. A fuller report on the conference appeared in EIR Dec. 20, 1991. The article translated below by Steve Corkovic is the first of several that will appear in the Croatian press on the alternative to the Jeffrey Sachs austerity policies being promoted for eastern Europe by the Anglo-Americans.*

"Shock therapy," still being recommended by many western scholars as the fastest means of transition from the planned to the market economy, obviously has not yielded the expected results, while the hardships it brings to the economic life and the standard of living of the population in eastern European countries are impossible to explain away as "introductory problems." Parallel to critiques of such a strategy, the East is seeking advocates of alternative theoretical and practical solutions.

One such scene of the "clash of two strategies" has been the international conference of leading European economic experts in Berlin, at the end of the last year. Many eminent scholars, especially from East European countries, responded to the invitation of the "Schiller Institute" and the synthesis of their deliberations can be summed up as the abandonment—even outright rejection by some—of the so-called liberal theories recommended by the American Prof. Jeffrey Sachs and the adherents of his "school," and forced into practice by institutions such as the International Monetary Fund (IMF) and World Bank.

That the problem is very real can be attested not only by the figures of catastrophic decrease in production and employment, as well as in the standard of living, in the majority of eastern European countries, but also by animated warnings from Russian President Yeltsin of possible threatening explosions if such negative tendencies continue in his country and other areas around Moscow. . . .

Poland was the first East European country that, after elections two and a half years ago, abandoned the existing system of the central administration of the economy and started on the road of the liberalization in the . . . economic and political life of the country. Now, as can be seen, Poland

is again the first to abandon the "shock therapy" recipe, and to seek roads to transition that would be more acceptable both from the economic and social perspective.

The Polish experiences, even the negative ones, seem extremely important, as they represent a question of strategies which—as the most effective and even "as the only salvation"—are offered to other eastern European countries. A debate about these experiences, at the Berlin conference among others, is conducted with the purpose of avoiding obvious errors and discovering acceptable ways for the transformation of national economies and social systems.

The Polish Premier Olszewski has made it known that his government is no longer willing to follow Jeffrey Sachs's recommendations as well as many other financial institutions of the West. This is being interpreted as a signal to other countries of eastern Europe to examine their own conceptual solutions and models.

At a time when Moscow was issuing an invitation to the former Polish Finance Minister Leszek Balcerowicz, an advocate of that "rejected school," in the conviction that his experience could help them to project a "Russian way" to transformation, it is interesting to note that the current Polish prime minister is making that very split with the concepts of the former minister as the most prominent factor in the present Warsaw government's orientation for its economic policies. Two other points in the government's program are: to stop a catastrophic drop in production, which occurred over the past period, i.e., to find practical solutions that will not require of Polish citizens sacrifices that they can no longer endure. The people's buying power, employment, and standard of living have already "crossed the threshold of endurance," as the present Polish premier put it.

### Advance toward—1989

It is very illustrative for the Berlin meeting that its participants did not consider just the problems of their own countries, but they strove to formulate universally acceptable methods for all other countries in the process of transforming their national economies.

Bulgarian scholar Dr. T. Nikolov illustrated the common interests of the East European countries with practical economic ties that are now virtually defunct. A condition for their reappearance is that the countries, in their future economic development, certainly accept some "fundamentally compatible directives" and find mutually acceptable solutions for certain issues of vital importance for their future economic ties, such as a method for paying their mutual bills and settling of accounts.

The most recent developments in his own country, continued Dr. Nikolov and the evaluation of the latest results shows that the "shock therapy" had ruined the Bulgarian economy, and he said, the only way he could see to prevent even bigger disasters and explosions was in more lasting and acceptable solutions for a common development strategy, as

## Economic indicators for countries of central and eastern Europe

Country	Bulgaria	C.S.F.R.	Yugoslavia			Poland	Romania	Hungary
			Total	Croatia	Slovenia			
Population (millions)	9.01 <sup>1</sup>	15.7	23.8	4.7	2.0	38.2	23.2	10.4
Area (000 sq km)	110.9	127.9	255.8	58.6	20.2	312.7	237.6	93.0
GDP								
1990 (natl currency in billions) <sup>2</sup>	42	798	941	237	168	606,726	844	2,081
1990 \$/capita <sup>4</sup> (current exch rate)	5,940	2,840	22,003	29,003	53,003	1,670	1,620	3,180
1990 \$/capita <sup>5</sup> (WIIW figures)	8,380	9,830	6,455	—	—	6,640	6,070	8,890
Actual change 1991/90 <sup>6</sup> (%)	-23/-26	-15	-20	-19.7	-11 <sup>3</sup>	-8/-10	-15	-7/-9
Inflation (Jan-Sept 91 in %) <sup>7</sup>	404.3	59.7	85.8	87.1	80.3	73.6	219.4	35.6
Unemployment (Jan-Sept 91 in %)	8.1	6.8	20.1	16.7	10.5	10.4	3.3	6.1
Balance of payments 91 (bn \$)	-2	0	—	—	-0.2 <sup>8</sup>	-1.8 <sup>3</sup>	-1 <sup>3</sup>	0.3/0.4
Budget deficit 91 (%)	-8.5 <sup>10</sup>	-10	—	—	—	-29,300 <sup>11</sup>	-65.5	-114
Budget deficit (% of GDP)	5/8	1	—	—	—	3/5	—	4
Total debt (bn \$) <sup>12</sup>	12	9.3	14.3 <sup>13</sup>	2.5	1.6	44.3	2	20.4
Debt/capita (\$)	1,330	590	600	540	840	1,160	86	1,960

Notes: 1. including emigrants; 2. per current prices; 3. estimate; 4. calculated per current official exchange rate; 5. WIIW model per physical indicators; 6. WIIW estimate; 7. Jan-Sept 1991 compared to Jan-Sept. 90; 8. status at end of Sept; 9. status at end of Oct; 10. limit per budget legislation; 11. status at end of Nov; 12. most current data (Aug-Oct 91); 13. middle- and long-term loans.

Source: Vienna Institute for International Economic Comparison (WIIW); National Data and Statistics

well as for satisfying the elementary needs of the Bulgarian people.

The prognosis according to which Bulgaria—even if an advantageous and acceptable path of development is taken right now—will take 10 years to reach its economic potential of 1989, speaks adequately of his appraisal of the “post-socialist recipes” for the economic transformation. The many years’ absence of the market regulations and incentives in the national economy is impossible to overcome without transient drops—even large sacrifices, as he said—but the drops, which were felt in all productive activities and in the standard of living of the population, were too large.

According to official Bulgarian statistics, in the first year of the transformation of the economy, the production of the country was reduced by a full third. Nikolov thinks that the reduction was in reality 40-45% compared to the previous year. The drops in certain main areas of Bulgarian economy were exactly that much, in the dairy and meat production for instance, and for every fourth industrial company it could be said that “it produced—nothing.”

### How to develop a middle class

At this rate—if the current path to recovery for the Bulgarian economy is continued—it would require “about 150 years to achieve minimally acceptable results,” Dr. Nikolov emphasizes. The second danger, as he said, is that along with the total statistical growth, a development of a social structure is occurring, which looks more like a “Pakistani model” than the model set by Bulgarian democratic forces;

a very narrow circle of rich businessmen and a very poor “rest of the population,” with completely unsatisfactory standard of living and without practical possibilities . . . to improve the total economic and social life of the country.

As an illustration of a condition in today’s Bulgaria, Dr. Nikolov cites a recent auto fair where “big and expensive Mercedes autos disappeared in no time at all,” while there was little interest shown in small and mid-sized vehicles, with more affordable prices for people’s buying power.

The evolution of the “middle class” is very important in the future strategy of the Bulgarian development, and a path to that is, first, a faster and more energetic privatization of the large majority of economic activities, similar to other East European states; from this a similarity in difficulties—in resistance—on the path to liberalization and change to market rules of national economy.

In Poland, for instance, differences in standard, completely unsatisfactory, are especially pronounced in regards to the agricultural population, which is of a decisive importance for the whole national economy; farm workers are earning only 63% of the average salary in the industry, although almost a third of industrial production depends directly on agriculture.

### ‘Shock’ with a failing grade

A belief that a price liberalization will fundamentally change circumstances in the countries of eastern Europe, has been shown to be unfounded even in regions of former U.S.S.R., and also in Czechoslovakia, Poland, Bulgaria and

other countries of that region. After 70 years of state-controlled economy, changes have found it in an unsuitable structure for production, and the price liberalization—although only in its beginnings—brought total chaos to the marketplace as well as monopolistic tendencies, instead of expected stimulus to production and competition.

In 1991 Czechoslovakian industry registered a fall of 23% compared to the previous year (when the fall was only 3.7%) and in . . . some important activities, such as electro-industry, textiles and clothing, processing of nonferrous metals and others, the reduction was 35 and 42%.

Despite the similarities of systems that were ruling economies in these countries for tens of years, there are some differences which reflect themselves as effects of certain measures. In Poland, about three-quarters of the small business trade is already realized through private retail; also agriculture is almost totally in private hands. Hungarian agriculture is, to a great extent, directed toward market economy, while within the former U.S.S.R. borders, collective farms still dominate, and individual producers refuse not only to give to them—even sell—possible surplus, for they do not believe they will be justly paid. It is obvious why: The greatest concentration of state power was precisely in the U.S.S.R.

### What kind of endurance

In extensive discussions within eastern European countries—and also without—about the effects of measures taken to vitalize their economies, as well as about choices of offered strategies, opinions mostly differ about how much sacrifice the people of these countries are capable of or ready to endure before they can sense some actual improvements.

Russian President Yeltsin has repeated his conviction that the Russian people “show an understanding for the difficulties” accompanying the transformation, “even if they grit their teeth.” The Russian President states that reforms are, objectively, in their inception, “in baby’s shoes,” but that the Russian people are convinced that this is a question of efforts that go “beyond the experiment itself,” where the future existence of all of them depends on these efforts.

Polish Premier Olszewski is evidently of the opposite opinion, and he thinks that it is impossible to burden further a “tightly stretched rope” of the patience of the people. As stated by many participants of the Berlin meeting from other eastern European countries, the standard of living of the majority of the population is “dangerously close to,” and “in some cases even below” the biological survival threshold, and if the process is not stopped in time, explosions of all kinds can be expected, even the least desired ones.

### New barriers

The attention of almost the whole Berlin meeting was attracted to the blockade of almost total mutual exchange of goods among East European countries especially after tens



*Bulgaria's Dr. T. Nikolov speaking at the Schiller Institute conference on the Productive Triangle in Berlin last Nov. 22-23.*

of years of such exchange and cooperation, even if it was coerced. Even in this area of the economic life the “shock therapy” is present, and many people easily pass over the fact that many companies and activities will fall victim to this condition although they would have a high probability of justifying themselves economically under a bit more settled circumstances—as in the recent past.

Problems are in reality reduced to the lack of an effective system for mutually settling accounts and payments in place of the former clearing method and uneconomical means of exchange. Instead of looking for ways to move this exchange from its inertia, new countries—and even the countries of the former U.S.S.R.—are busier with the introduction of their own currency, customs and other barriers toward their neighbors, breaking of the inherited ties, even if they could be acceptable under conditions of the new market economy.

Considering the problems, the Bulgarian scholar Dr. Nikolov believes that East European financial institutions should look for an appropriate model in the post-1948 strategies and policies of the western European countries. He is convinced that such a strategy would bring results even faster than the generous Marshall Plan strategy: Financial potential and interest from western European countries, and even of the whole West, are today stronger than the ones that were able to provide support to postwar countries in Europe, the same as the realistic potentials in the eastern Europe which could, if directed in a more rational manner, relatively rapidly usher in development and growth.