
Interview: Waldemar Michna

The international financial bubble could cause great damage to Poland

Professor Michna is a member of the Polish Parliament from the Polish Peasant Party (PSL) and a deputy chairman of the Budget, Finances and Banking Committee. He was interviewed in Warsaw on July 13, 1994, by Frank Hahn. The interview has been translated from Polish.

EIR: Can you tell us what the budget situation is in Poland right now, and how do you think the budget can be balanced?

Michna: A few days ago there was a parliamentary debate on the process of meeting the budgetary plan during the remaining five months of 1994. All the deputies who participated in the debate, both from the government coalition and the opposition, came to the conclusion that the budgetary plan is being fulfilled very well, especially insofar as income is concerned, which means that tax revenues are slightly higher than planned. During the first six months of this year, income reached 47% of what was planned for this year, expenses from the budget constituted also about 47% of what was planned.

It is known that during the first half of the year both revenues and expenses are usually lower than in the second half; therefore, 47% is considered as a good result. When I say "good" or "very good," I am referring to general revenue and expenses. However, in several branches of the economy there are certain dangers: For example, a poor cash flow for enterprises presents such a danger. Enterprises which are now being privatized or restructured, instead of increasing their tax payments, are paying less. They are not good enough to provide the kind of income we count on. This is the main challenge we see on the income side of the budget.

As for difficulties with expenses, the budget is not good enough to make corrections in its plans that would allow it to meet certain needs not initially covered in the plans for budget expenses. For example, on March 5, the Sejm [lower house] passed a bill for the government to take under consideration in the second half of the year whether it can increase social expenses, say, increase social support for women with small children. It turned out that despite the fact that the plan for the budget has been fulfilled, there is not enough surplus to make a correction.

I want to add that the Sejm accepted the statement of

the government which has also suggested that after three-quarters of the year it will again consider the possibility of allocating more funds to social needs or investment in human capital.

However, in the second half of the year we will have to face one more burden, namely, we will have to repay a large installment on part of the foreign debt service. In September, we will have to pay 25 trillion zlotys (over \$1 billion) to cover servicing our debts. This will threaten budget expenses. We did not have this obligation in the first part of the year. Generally, we could say that the analysis of the budget in the first half of the year shows that our weakness comes from private enterprises, since private enterprises are suspected of being as imprecise as possible about their income in order to minimize their tax obligations. This makes it more difficult to create a good climate for privatization because over 50% of the people work in private enterprises, including in agriculture. Nonetheless, the private sector of the economy still brings less than 20% of revenues.

We will have to increase demands concerning revenues to the budget while privatizing state companies.

EIR: Don't the majority of privatized firms become part of some foreign company? As far as I know, on the one hand, foreign companies are not expected to pay full taxes, and on the other, this kind of privatization process does not seem to be part of a strategy for development but part of a strategy of looting.

Michna: It is true that in a large portion of enterprises that have been privatized, a significant chunk of capital belongs to foreign companies. It is also true that in the last few years, they negotiated very significant exemptions, very often exemptions which they did not deserve, above all, because they were able to get a large number of shares for a very low price. And then, in addition, they got very long tax grace periods.

As for the privatization process, in my mind, we have made a strategic mistake. In March 1990, French experts from the Central Planning Office arrived in Poland. They advised Poland to first strengthen [state-owned] enterprises and then privatize them. However, for unknown reasons,

previous governments did the opposite. This led to the destruction, to the collapse of enterprises, which were then sold as bankrupt. Hundreds of companies, especially because of the shock approach to the economy (which was Balcerowicz's strategy), were run into bankruptcy and then privatized. As a result, enterprises were sold for nominal sums to domestic or, more often, to foreign companies. As an example here we can use a company in Kostrzyn that produces cellulose: Exactly a year ago, before the September parliamentary elections, it was sold for \$40—an enterprise employing 1,700 people!

Here is a good example. First, enterprises were subjected to a shock therapy, which had two characteristic elements: first, on Dec. 19, 1990, tariffs on 8,000 goods were eliminated entirely. Second, interest rates on credits for enterprises were increased in 1991 in monthly terms in January to 60%, in February 45%, and in the following months 30-40%. Those two elements: on the one hand, opening the borders to industrial products from all over the world—not only the European Community and the United States, but also Asia—our industry, which was not the most modern, was doomed to lose its own market. Second, costly credit. Those two elements led to huge unemployment and a dramatic collapse of enterprises.

I do not want to go into the details of this history now; I want to go back to our present budget policies. On March 5, this year, the Sejm passed the bill on monetary policies, namely, it was decided that if inflation is no higher than 23% for this year, which means in six months it should be no higher than 11%, then the flow of money into the economy will equal the GNP. There is still discussion going on as to whether the priority should be put on stopping inflation or on stimulating development. This question was not solved by the Parliament, and we will discuss it again during one of the first sessions after the summer holidays.

EIR: This question is obviously connected to the question of credit, and in this respect we see the collapse of financial structures globally on the monetary and financial markets, and the fact the speculation is growing astronomically while the expense of production is obviously shrinking available credit for real investment. Can you comment on the question of the financial bubble and the imminent international collapse of this bubble? After all, the shock therapy was a part of this financial bubble.

Michna: Before I move onto the world situation, I will say something on our 1994 budget. This year, credit for enterprises has also been in decline. Therefore, I myself think that we should increase the flow of money into the economy such that credits to enterprises are not lower than last year. This phenomenon you just described, namely, that flow of money for production and development is decreasing because it is directed into a stock exchange, which is speculation to a certain degree, is confirmed as well in our microeconomy.

We are seeing a situation in which banks are willing to get involved in the stock exchange and to buy securities issued by the state treasury, but they are least willing to give credits to enterprises. I think that during the next session of the Sejm, we will manage to find means to reverse this tendency a little bit.

Recently I had an opportunity to learn points of view of Polish economists about this global financial bubble. To tell the truth, Polish economic circles are not well informed about the techniques which led to the growth of the bubble. I think it would be very helpful for us to have a report on the fictitious money and its role, as well as dangers resulting from it. I am afraid that this fictitious capital, although it is fictitious, can change the ownership very easily. With the help of this fictitious capital a large part of the Polish nation can be expropriated—as can happen in Bulgaria or the Czech Republic, or in other nations. In this sense it is not fictitious, being fictitious it can still cause something real.

This is my fear, how to properly recognize fictitious capital from non-fictitious. We, as Poland, want to integrate with western and eastern Europe first of all—we do not want any free capital; however, we do want fair play. Still, we are aware that this huge bubble hanging over Europe and the world can move Polish property very easily to other countries, which also means dividends. There is nothing, in our university programs that would alert students to this fictitious capital. We want to develop a stock exchange, and we also want foreign capital to have access to this stock exchange, but we—and I personally—have a lot of fear that this fictitious capital could cause a great deal of damage to our country.

I read the statement of [French Nobel Economics laureate] Maurice Allais who claims that banks spend annually or daily 40 times more on speculative capital than on normal operations, and, I must say, that for a country like Poland, this represents a lot to fear. In Poland we had cases of speculation; the most classic example was the Slaski Bank. The shares were sold for 500,000 zlotys, and in a few days they were worth 6 million zlotys—somebody was able to get 13 times more money in a few days. Of course, one could say that that was a coincidence, or even that this is the rule on a stock exchange, but there were certain non-coincidental problems there, because the bank employees benefitted from this: They were aware that something like this could happen. The prosecutor who is investigating this case is finding reasons to get involved in it. I do not want to say anything before the court does, but this case is being investigated, so it means there are suspicions that there was speculation going on.

EIR: One way to get away from the system of the fictitious capital is obviously to allocate credits to projects that create real physical wealth, and that means having the government channel credit through a national bank; the kind of projects

into which such public credits would be channeled are obviously public infrastructure projects. In this respect, it should be of major interest for Poland that the governments of France and Germany especially are reflecting a proposal that Mr. LaRouche made in 1990 for the development of eastern Europe; and what they are discussing is to extend a high-speed railway project connecting Paris and Berlin to Warsaw and Moscow. What do you think about those kind of development projects?

Michna: I read a joint statement by Kohl and Mitterrand regarding a high-speed railroad for Paris-Berlin-Warsaw-Moscow. I understand that this is the first element of this great infrastructure project. I used this statement of Mitterrand and Kohl's in the PSL Club statement in Parliament during the budget discussion. I said that the Sejm is for government support for this kind of infrastructure. I understand that all participants will have their interests in this project; for example, France is the author of the technology of high-speed trains, it has the license for this technology—the engines, carriages. The Germans can expand the market for their exports, but Poland, too, would benefit during the construction phase, and, also afterwards, thanks to vast exports to the East, and to imports. Those projects will find much support in Poland, I think, because Poles support the idea of solving problems in Europe through a process of integration of western, central, and eastern Europe. I think that Europe, as well as the whole European-Pacific civilization, together with the United States, would benefit just as it benefitted from the Marshall Plan; now it can benefit from building huge infrastructure networks, or rather the huge integration of Europe from Spain to the Urals.

EIR: This kind of development of integrated Europe needs new ideas in the field of economic theory. How do you view the theory which is called physical economy?

Michna: I read with a great interest LaRouche's book on physical economy, *So, You Wish To Learn All About Economics?* I think it is very creative. From the standpoint of educating students or as a new thinking in economics, it is very important and instructive. It is possible to derive from it various thoughts concerning integration, since it gives the basis for economy without speculative capital. It requires a reader who would be prepared to translate physical economy into the program for today and tomorrow, because the concept of physical economy gives a certain foundation and on this foundation one has to build a program for today and tomorrow. There is no program for today and tomorrow in this book yet, and when an inexperienced economist reads it, he may feel that something is missing. But I think the second volume should be developed as a program for today and tomorrow: Building infrastructure may be such a program for today. There was no thesis in that book which I would disagree with, it is the basic, general principle of economics.

Conference Report

Bankers turn screws on Russia, Ukraine

by Richard Freeman

Boris Fyodorov, the former finance minister of Russia, complained to a meeting of international "financial experts" in Washington, D.C. on July 22, that his only objection to the austerity conditionalities of the International Monetary Fund (IMF), is that they are not harsh enough. He and others who spoke at the July 20-22 conference of the Commission on the Future of Bretton Woods Institutions targeted Ukraine as the next victim of the shock therapy policies that Fyodorov so relishes.

The commission is a ghoulish gang of one-worlders who wish to rework the IMF and World Bank, joined to a newly created World Trade Organization, into a new Roman imperial triumvirate, exercising a global economic dictatorship over previously sovereign nations.

Fyodorov, who weighs at least 240 pounds, forgets to tuck in his shirt, and looks like a plump schoolchild in an adult's body, presided over draconian shock therapy while Russia's finance minister from 1992 through early 1994. He told the Washington audience: "I have friends in Russia who say the IMF is too strict. But I say it is not strict enough. I told [IMF Managing Director Michel] Camdessus that 'you should be tougher demanding of Russia a sound economic policy.' Our inflation rate in Russia is reportedly down to 6% per month from 100%. I told the IMF you must demand it go lower. People say Russia is poor. Russia is rich. It has \$20 billion in American bank notes. There are mansions. There are Rolls Royce dealerships. I have nothing against the IMF. In Russia there are too many privileges and too many unorthodox strategies"—in contrast, presumably, to the IMF's strait-laced genocidal strategies.

As a result of Fyodorov's policies, Russian industrial output is down 49.7% from its January 1992 level; 80% of Russia's critical machine tool sector is in bankruptcy; one in five Russian infants is born ill, as opposed to one in seven in 1991; and, in 1993, Russia's population shrunk by 300,000 persons.

Fyodorov: Shut down heavy industry

In an interview with *EIR*, Fyodorov exulted that the military-industrial complex is disappearing. This complex is Russia's manufacturing core, embodying unique capital-in-