Poland keeps suicidal Sachs economic policy

by William Engdahl

The new President of Poland, Lech Walesa, in the first week of January, after several weeks of attempts to enlist better-liked figures to become prime minister, named a 39-year-old unknown economist turned "entrepreneur," Jan Bielecki, to the post. Bielecki has already pledged to speed up Finance Minister Leszek Balcerowicz's radical "free market" economic strategy. He took the job on the understanding that Balcerowicz, the man most blamed for the unpopularity of the former Mazowiecki government, stays on as deputy prime minister and finance minister.

The London *Guardian* on Jan. 8 reported that the U.S. Embassy in Warsaw and a former Reagan White House adviser threatened to cut off any future International Monetary Fund (IMF) and World Bank monies and other Western bank capital to the desperate Polish economy if Balcerowicz were stripped of power in the new regime. Hence, the *Guardian* reports, "the government of Poland is effectively under Balcerowicz's control."

One year ago, on Jan. 1, 1990, Balcerowicz imposed the economic "shock therapy" policy of 34-year-old Harvard economics professor Jeffrey Sachs. With a parallel black dollar economy, and inflation of the zloty running at a rate of 640%, Balcerowicz and Sachs demanded radical measures. As *EIR* predicted, the results have been catastrophic.

Balcerowicz, in concert with Sachs and the IMF, removed or sharply cut state price controls on food, gasoline, and other necessities; severely squeezed credit; and devalued the zloty 60% against the U.S. dollar, to reflect the black market level. While most prices climbed to the black market levels, the government slapped on a wage freeze via punitive taxation. Protective tariffs were removed to "expose" the internal economy to the "world market competition pressures"—as patrician parents of ancient Rome exposed unwanted infants.

Balcerowicz told Poland's Parliament, the Sejm, in February that a "recession" would be inevitable as Poland moved into the promised paradise of his "free market" model.

Yet inflation, the nominal target of the Sachs "shock," by November 1990 was running at 250% by official Polish statistics. Unemployment rose tenfold, from 9,700 in December 1989 to 926,000, and is expected to hit 2 million in 1991. Real incomes have fallen 31%, in a country where average earnings are an abysmal $60 a month. Farmers are holding produce back hoping for higher prices. Industrial output has collapsed by 27%.

Applying the same IMF "cure" which has savaged the economies of debtor nations in Ibero-America and Africa, Balcerowicz aimed to slash imports and boost exports, so as to create a "stable" zloty. At what social and economic cost? Imports for the first nine months of 1990 fell 24%, while exports, with the devalued zloty, increased a similar amount. Gross domestic investment fell the same period by 13%, state industry output by 23%, and construction by 17%. Defenders of the Sachs shock plan point to a 35% rise in the share of the "private sector" in the Gross Domestic Product. They ignore the fact the initial base was extremely low and that most of the private business is desperate trading operations which previously were on the black market. Sachs, commenting on the defeat of former Prime Minister Tadeusz Mazowiecki, attributed it to "extravagant fears" among Poles, and Mazowiecki's being a "lackluster communicator."

Now, a second shock: oil

As of Jan. 1, Poland undergoes a second "shock." With the old East bloc Comecon trading system abolished, all oil must be paid on a dollar or hard currency "world market" price to the U.S.S.R. Poland is fully dependent on imported oil. Thus, assuming world oil prices in a range of $30-35 a barrel, Poland faces an economic blow more devastating in relative terms than the 1974 oil shock to Western economies. Under old Comecon trade terms, Poland got Soviet oil at an equivalent of $7.50 a barrel in a barter for Polish coal or food. Plus, Poland had an agreement with Iraq to take Iraqi oil in repayment of Iraq's war debts to Poland. That is now suspended indefinitely.

Nor has Balcerowicz dealt with Poland's huge foreign debt, estimated at $44-50 billion. This year and next, the repayment of interest will rise to deplete the national currency reserves, sucking out capital needed to rebuild the productive economy.

In a critique in the Dec. 5 *International Herald Tribune*, the former director of the Economic Commission for Europe in Geneva, Melvin Fagen, wrote, "The shock treatment was a mistake. The fundamental mistake of the Mazowiecki government was to encourage consumers' prices to rise rapidly and dismantle state subsidies too abruptly." Fagen argued that price reform should eventually come, "but not as a first step in transition to a market economy, especially in a country with so low per capita income," noting the policy in Poland has predictably led to panic buying, strikes, and even street riots, a repeat of what Fagen terms "the disastrous experience of the IMF with its austerity policies" in Zambia or Venezuela.

Fagen advocates the model of a South Korea or Taiwan, nations which have gained high growth rates with a national economic strategy which included low labor costs, but also maintaining state subsidies, protective tariffs, and cheap credit for industry. Although Fagen does not say so, Korea took its cue from the "American System" approach of 19th-century German economist Friedrich List—the school led in our day by Lyndon LaRouche.