Economic liberalism means disaster

Experts from Poland reveal the depth of economic destruction caused by the "Polish model."

Although the longest section of the German eastern border is with Poland, there is little familiarity here with details of the economic, social, and political realities in that biggest eastern European neighbor. The economic sections of the German press are filled with reports about the "Polish model" of liberalization reforms, talks between the government of Poland and the International Monetary Fund (IMF), the latest on the Warsaw stock exchange, and updates on the "disturbances" caused to the "successful" reforms by rebellious workers who only think of their own benefits.

A concrete look at what is going on at the German-Polish border, on the Europa Bridge in Frankfurt/Oder, is far more informative. One will witness, first, a never-ending traffic jam which, six years after the Iron Curtain fell, reveals how slowly the cross-border transit infrastructure is improving. A new road bridge is being built—and may be ready by the end of this decade. The second phenomenon is the never-ending stream of Germans walking to the other side of the Oder River into the Polish town of Slubice, to buy food and other basic consumer goods, taking advantage of the low Polish prices. The long lines of Germans returning from their shopping trips with filled plastic bags, also tells about the low purchasing power of Germans in this easternmost part of their country.

Even by post-unification standards, Frankfurt/Oder is a poor city. Before 1989, the East German regime built a huge semiconductor factory there, with 35,000 workers and engineers employed. The complex was designed to produce for the entire East bloc, and it was closed after 1990. Of the original workforce, only 3,000 have remained, and hardly any new industrial jobs have been created since. This means that jobless rates are disproportionately high, and youth unemployment is at 30%—what one would call "ghetto conditions" in the United States. Things are even worse on the Polish side. Poles come over to the German side, on the Europa Bridge, to buy "luxury goods" such as bikes, tape recorders, and televisions or household appliances which they could never hope to afford on the domestic market, given the exorbitant prices one has to pay there.

A three-day seminar, held at the Viadrina University of Frankfurt/Oder in mid-October, heard Polish economic experts whose reports were shocking indeed. The seminar, titled "The Political Economy of Structural Change," provided several workshops on the development of the economies of the former Soviet bloc and China.

Prof. Karol Sobczak, of the University of Warsaw, who presented his country from a viewpoint of liberal economics and was in favor of the reforms in general, had some sarcastic remarks on the absence of State budgets for vital services like police. A spectacular affair occurred in the western Polish city of Poznan, where organized crime circles generously stepped forward to provide the underequipped police with cars, computers, and photocopy machines!

Prof. Wladyslaw Sztyba, also of the University of Warsaw, criticized a strange pattern that has developed in Poland's export-import relations, which is overlooked by most foreign analysts. While official statistics speak of an almost-even trade balance, the reality is that the State sector absorbs most of the imports, and the private sector most of the exports. The small exporters simply don't have the money to import, because what they earn is absorbed by the exorbitant interest rates they have to pay for bank loans—currently about 30%—that they have taken to build up their firms. The big State-sector industry does have the money (from the State), but this is absorbed by payments for imports of raw materials, and usually, very little is left for new investments. As a general pattern, Sztyba remarked that there is "too much import of consumer goods," while "Poland needs more investment goods" to modernize its industry.

The reason for this import-export monstrosity is, as Prof. Krystyna Poznanska of the University of Krakow explained later in the seminar, that by far most of the new private enterprises that receive so much international praise, are tiny textile shops or trading ventures often with no more than five employees. Shops of this size hardly have the efficiency required to have enough production to yield a revenue which allows expansion. Attaining subsistency level is the most that many of these tiny shops can expect.

They cannot survive, Poznanska emphasized, because the credit-crunch policy arranged between the government, the banks, and the International Monetary Fund, rules out any low-interest loans for new enterprises. Without low interest rates, production will never recover, and Poland will become more and more decoupled from the club of industrial nations, she warned.