

does this problem look like in Poland?

Oledzki: This problem is escalating, and it is very serious. Everybody who is involved in education has to deal with it. Of course, we face a very serious obstacle due to our financial crisis. In Poland, we had a special situation in the past, because Catholicism was strong, and also during the communist period, the Church prevented the abandonment of a certain system of values. This protected us for some time against the wave of drugs that flooded the West, but this protection is becoming weaker and weaker, because of the economic collapse causing the crisis in education, and in many families.

This is the kind of situation which makes the drug trade easier, and we are aware of it; we try to fight back whenever this is possible. We have to deal with things which were unthinkable a few years ago: Because of drugs, some schools are temporarily closed or special guards have to be hired.

These are drastic measures, but in some cases this seems to be the only solution. Here in Warsaw, almost in every school students have contact with drugs to a greater or lesser degree, although teachers deny that. However, people who work with kids who have drug problems, confirm that this is a widespread phenomenon. This is definitely one of the most serious problems that confronts teachers nowadays.

Interview: Witold Rutkowski

Contours of Poland's financial crisis

Mr. Rutkowski, a Polish economist, was interviewed by Anna Kaczor Wei, during a visit to Warsaw in May.

EIR: Lyndon LaRouche has been warning about a collapse of the global financial system. One of its symptoms was the currency crisis in Southeast Asia at the end of last year. How is this crisis perceived here in Poland?

Rutkowski: I would like to say that the financial system established in Jamaica in 1976 has defended itself against such phenomena for quite a long time. Over 20 years have passed, and everybody has been aware that the system was not perfect: the rejection of dollar convertibility into gold, the introduction of flexible exchange rates—everybody knew what kind of dangers that meant.

A great deal of hope was placed in financial supervision, but it turned out that this supervision failed, and the stability of the whole financial system is now threatened. I think that the majority of the people who deal with financial affairs are

aware that some steps have to be taken in order to improve the system, which will be very difficult, or to change it into another system, which would be even more difficult right now. Some solution has to be found, since everybody knew at the beginning, and knows now, that the system has a certain paresis. However, so far there is no official proposal concerning the introduction of a reasonable new order.

EIR: Poland is now a part of this global financial system. I mentioned during our earlier conversation that one can see the flow of speculative capital to Poland. What can you say about the monetary-financial system in Poland, and about those people who say that Poland and other countries of Central Europe may soon be the target of speculative attacks, just as Southeast Asia was before?

Rutkowski: The present state of Polish finances results from the bad policy of the Polish National Bank, and the fact that, in principle, the Polish government has lost any possibility of making decisions on matters of exchange rates. That was unintentional and unforeseeable. Right now, the Polish National Bank (NBP) is the only institution which can make decisions on such matters. Such a situation is unknown. The other example is Sweden, but there the Parliament has the right to veto. In Poland, the Parliament cannot; only the NBP can do it, but everybody knows that it will not!

EIR: You mentioned mistakes of the NBP. Can you specify what you mean by that?

Rutkowski: Especially the discrepancy in interest parities. In Poland, this is about 10%—it is an unusual case, a real El Dorado for all kinds of speculative transactions. It is profitable to invest money in zlotys [the Polish currency] and earn an interest rate in Poland. Of course, it is clear who pays: Polish finances, which then puts a burden on the Polish budget; an unbalanced budget requires that taxes be raised, so this is the dilemma of Polish financial policy: in order to balance the budget, one would have to eliminate the mistakes of the Polish National Bank; instead, the burden is passed onto the shoulders of the taxpayer. This creates a great deal of discontent.

EIR: What is the role here, if any, of so-called hedge funds, run by such individuals as George Soros? Is the capital from such funds used to speculate in Poland?

Rutkowski: There are no hedge funds in Poland. However, it is obvious that in the case of a so-called bull market, there is a rush to buy, and then reserves of such funds are used. But such funds are not active in Poland. The Polish currency market is still in an embryonic state, and is unable to react to any pressure from the outside. We just got the news that the zloty has gone up by 8% from its official rate, which means that “the market zloty” is 8% more expensive than the official rate set by the NBP, which makes the situation very dangerous, and as a result, the demand for zlotys is very high.

EIR: How long will the NBP keep such high interest rates, which encourage people to buy zlotys?

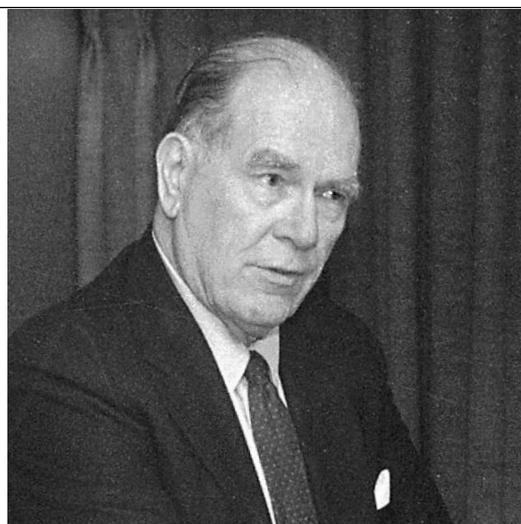
Rutkowski: This is a political matter. As long as it can, it will. Right now the central bank's independence is guaranteed by the Constitution. This is unheard of. The only body which can make a decision to lower interest rates is the Monetary Policy Council. Everybody knows that the lowering of interest rates will result in the flight of foreign currency from Poland. On what scale, I cannot foresee, but this could be the beginning of a crisis, so it is clear that as long as the central bank can keep high interest rates, it will. Most likely, until mass protests break out, which is quite possible. We may see a mass social protest, which will lead to a lowering of the interest rates. Then, the whole blame will be put on society, which will be accused of "not having grown up" to the level of the free market.

EIR: A few days ago, we talked about an economic program, proposed by LaRouche, which he calls the New Bretton Woods. There are more and more voices calling for a new system—one can mention Sakakibara of Japan and Prodi of Italy. What do you think about this idea? Would you agree that a global system of relatively fixed exchange rates would help to discourage speculation and foster a policy of long-term investment into infrastructure and industrial projects?

Rutkowski: I do not think the expression "fixed exchange

rates" is proper, as we cannot ignore the reasons for the breakdown of fixed parities in the '70s. It was called a perfect inflation machine, and such fixed parities between different countries could clearly not be maintained, under conditions of chronic inflation. So, in my opinion, we cannot go back to any system of fixed exchange rates. I would rather use the notion of stable exchange rates. There is a question of an exchange rate system that would be more stable and less vulnerable to speculative movements. Speculation always looks for price changes, as speculators earn money only when prices go up or down. But there is also the question of stabilizing or destabilizing speculation. Stabilizing speculation dampens price fluctuations. Destabilizing speculation amplifies them. So, we may simplify the question and say that speculators cannot in any way dictate conditions. This requires new exchange regimes, nearly perfect intervention strategies, and effective intervention mechanisms. Of course, I agree that such a stable exchange rate system is more suitable to foster long-term investments, infrastructure, and any kind of industrial projects.

We must realize that the transition to a monetary system, run according to the above-mentioned rules, requires strong international initiatives, international conferences, extensive research, etc., as up to now no practical alternative has been put forward. So, we must be aware that we are starting virtually from the beginning, and that such an approach offers the only hope.



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