Will Poland Follow Argentina?

by Alexander Hartmann

While the floods have subsided, Poland is deeper in troubles than ever before. On Aug. 1, Austria's daily *Die Presse* cited London's Economist Intelligence Unit, saying that Poland will need even more foreign money—$14 billion this year and $15.3 billion next year—than Turkey ($10.7 billion and $18.2 billion, respectively), coming in fourth after Mexico, Brazil, and Argentina. Two weeks later, Finance Minister Jaroslaw Bauc warned that the country's budget deficit might hit 88 billion zlotys (Poland's currency—about $20.7 billion), or 11.8% of GDP. The budget deficit was calculated at 4.3% of GDP. In June industrial production shrank 4.8%, while unemployment is now near 16%.

The zloty has fallen 16% over the last two months, despite (or, possibly, because of) the Polish National Bank's (PNB) high-interest-rate policy. On Aug. 25, Switzerland's financial daily *Neue Zürcher Zeitung* reported that PNB chief Leszek Balcerowicz (who both as Finance Minister and now as head of the PNB bears no small responsibility for the crisis) fired his deputy and three other members, half of the eight-member PNB board, a sure sign of panic. On Aug. 28, Finance Minister Bauc was fired for "reporting the deficit too late"—i.e., blaming the messenger. But, at the same time, the government admitted that Bauc was right about the deficit.

Lead-Up to the Election

In light of this situation, it is no surprise that all polls for the Parliamentary elections on Sept. 23 predict a landslide victory for the opposition. The two groups leading the current government coalition will probably not get into the Sejm (Parliament): The Freedom Union under Balcerowicz's successor Bronislaw Geremek hovers around 2%, while the Election Action Solidarnosc (AWS) would only narrowly clear the 5% threshold for parties, but it will not pass the 8% threshold for electoral coalitions. Of the present government coalition, probably only the Law and Justice party of the popular former Minister of Justice, Lech Kaczynski, will be represented.

Profiting from the crisis is the opposition. A large number of those who used to vote for the present government have turned to the Civil Platform (PO), which was founded last Spring by the surprising second-place finisher in last year's Presidential elections, Andrzej Olechowski, and is expected to garner some 16%. Olechowski himself is just as rabid a monetarist as Balcerowicz, and will certainly not press for any deviations from the International Monetary Fund's (IMF) and the European Union's (EU) diktat. The winner of the elections will be President Aleksander Kwasniewski's Democratic Left Alliance (SLD), possibly with an absolute majority. Many people will vote for the SLD in hope of a change; but, the SLD is just selling the present government's policies wrapped in a more leftist polemic. In fact, these fundamental agreements may form the basis for an SLD-PO coalition, although some are counting on an SLD-PSL coalition. The Polish Peasant Party (PSL) is at about 11% in the polls.

Late in May, the PSL invited Lyndon LaRouche to address their deputies (see *EIR,* June 28), and there is a strong anti-IMF current within the PSL, which may prevent its participation in the next government. Another possibility is a surprise showing of the Samoobrona (Self-Defense) group of radical peasant leader Andrzej Lepper, which the polls say will get 2%, but which got a surprising 16% in a straw poll in southern Poland. In that poll, the Alternatywa party, whose leading members have publicly supported LaRouche's call for a New Bretton Woods, got about 8%, while being credited with only 1% in the published opinion polls. Interestingly, after these results, the Election Research Center cancelled other straw polls, because of alleged irregularities. Thus, the anti-IMF camp is poised to gain in strength, once the SLD discredits itself by continuing the present government's policies. In light of this, Balcerowicz's move is certainly intended to create some positions for his fellow travellers, and to retain some influence over the country's economic policies.

Poland's Real Problems

Poland's real problems are the result of the past decade's economic policies, starting with the "shock therapy" introduced under the influence of Harvard's Jeffrey Sachs, which massively reduced the country's standard of living, and radically changed the economy's structure. In the 1980s, Poland exported mainly machinery and vehicles to the Soviet Union and other Communist countries, the Middle East, and Ibero-America; other exports included coal, chemicals, iron, steel, textiles, cement, livestock and meat, and wood. Today, 61% of exports go to the EU; the share of machinery and vehicles has gone down, while Poland has become the "extended work-bench" of Western multinationals. But the relocation of production to Poland has weakened Germany's economy, on which Poland had relied.

It would be wrong to call this de-industrialization, as in Russia or Bulgaria, where industrial production is less than 50% that of 1989. Today, Poland's industrial output is indeed 40% higher than in 1989; but, real wages are lower, today, and profits go to the multinational companies. Many of the exporting industries are located in "special economic zones," and pay little or no tax. Of the real value added, little is retained in the country. Also, a huge informal sector has developed, which comprises an astonishing 35-40% of Poland's economy, which doesn't pay taxes. At the same time, many of the companies sold to foreign investors were trimmed down to become low-cost production units, while the R&D facilities were shut down. Thousands of highly skilled scientists and engineers have been laid off; some are working abroad, or as cab drivers or for undertakers. A two-tiered society has developed, where those working for Western companies have a much higher standard of living than the remainder of the population, while Polish companies cannot find any money to invest. Because of the low average purchasing power, the domestic market is flat.

On the other hand, the present economic structure creates a huge current account deficit, especially with Russia, which provides Poland with oil and gas—the recent current account surplus with Germany is more a sign of German economic weakness than of Polish health. Everything was organized in a way, that Poland would be pulled by Western Europe's economic engine. This "worked," as long as Europe could expand its exports to the United States; but, now that the "importer of last resort" is failing, and Western Europe's economy is in a depression, Poland's economy is on the same path.

Suddenly, all calculations are proving wrong. The programs intended to boost the domestic market, not least to avoid disaster in the upcoming elections, cannot be financed, because privatization profits have ceased coming in. Thus, France Telecom had an option to add another 10% of Telekomunikacja Polska (TP) to its 35% share, for 5.6 billion zlotys. But, since TP's "market value" has fallen 60%, France Telecom waived the option. The reason is, that the whole telecom sector worldwide has fallen into a depression, and France Telecom spent its money on buying mobile phone UMTS licenses, and has no money left to buy TP. Other telecom multinationals have started selling their Eastern European assets, to raise cash and pay some debts. Thus, the market for privatizations is evaporating.

The government's plans to privatize 50% of the country's biggest bank, PKO, cannot be realized, and will probably be revised by the incoming government anyway. Even if all privatizations were to proceed as planned, all the revenues would be needed to finance the current account deficit, which is very high (6.6% of GDP). And, you can privatize only once. Once everything is sold off, there won't be any privatization revenues. And, without such revenues, Poland will be bankrupt—just as bankrupt as Turkey, Argentina, or Germany's capital, Berlin.

And After the Elections?

The new government could choose another road, but for the time being, there are no signs of a new policy under the SLD. Like the current government, it is putting all its bets on joining the EU, and is ready to fulfill all EU demands.

As long as Europe insists on its post-industrial utopia, Poland will have to produce for Europe's consumers, without being properly paid. As long as Poland is ready to accept this, its situation will only get worse—and apparently, that's what the SLD is preparing for. Thus, the SLD has demanded that all spending programs of the current government be examined, and is insisting on harsher austerity. After the elections, it will probably blame the former government for the economic woes—not totally unjustifiably.

But, blaming someone else will not solve the crisis. Poland has to orient its economy toward those regions which are building up their economy: toward the East, including China and Russia. The most important step to re-start Poland's economy is a New Bretton Woods system, as Lyndon LaRouche has demonstrated. Under such policy, Poland's former markets in Eurasia and other parts of the world would re-emerge. Poland must back the creation of such a New Bretton Woods system, which obviously would include a reorganization of Poland's foreign debts.

But, as long as such a system is not yet in place, Poland must turn to its own virtues. It is better to trade machines for oil, than to be paid with paper which may soon become worthless. Machinery exports to the East will help rebuild Russia's economy, and thus re-create Poland's traditional markets. At the same time, Poland must start infrastructure programs to boost the productive economy and the domestic market. For example, a network of waterways connecting the Vistula and the Oder Rivers, and further to the west and south toward the Elbe and Danube Rivers; or, a maglev rail system connecting Vilnius (Lithuania), Kaliningrad (Russia), Gdansk, Szczecin, Berlin (Germany), Wroclaw, Krakow, Lviv (Ukraine), and Minsk (Belarus).

To finance such projects, Poland will have to turn its "National Bank," which currently functions as a central bank, into a true National Bank that finances the nation's development, without creating national debt. Someone who raises interest rates to the heavens and thus strangles the nation's economy, in order to attract foreign investors, has no business running a National Bank, which, as the name says, is to serve the nation, and not some "international investors."

This is the most common mistake committed currently in economic policy: Foreign investments are generally considered to be good for the country, and, hence, everything is done to create conditions which attract foreign investors. But, foreign investments, even if they go into the productive sector, are just another form of foreign debt, as they are expected to create returns, which will flow abroad.

All of this will most likely be strongly disapproved by the EU. But, as long as the EU disapproves of such measures, it is an economic suicide club, and there is no reason why Poland should join it.