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U.S. says help Gorby, not Eastern Europe

by William Jones

A conference in Washington, D.C. on May 23 sponsored by the Bretton Woods Committee brought together some 200 American investors, bankers, and businessmen, to hear spokesmen from the Bush administration and international luminaries of the financial world discuss the situation in Eastern Europe, in view of the revolutionary changes there. Although there was a sense of the immediate need for action, little action of consequence was offered.

The message from Washington was, "no grand designs" for Eastern Europe—i.e., no money. This was the message communicated by Deputy Secretary of State Lawrence Eagleburger. "This is not an era of blueprints and grandiose plans for the future," he said, calling for flexibility and skillfulness in a continually shifting policy. Commerce Secretary Robert Mossbacher said in his speech that reliance must be placed on the private sector—not on government. However, Mossbacher took the opportunity to plug the administration's "Help Gorby" line. "The biggest potential for trade lies in the Soviet Union," he said. "We must investigate new ways of collaboration, including the possibility of giving them Most Favored Nation status." As one investment banker queried after hearing this, "But do they pay?"

A similar plea for helping Gorbachov was made by East-West financier George Soros, who warned that the situation in the Soviet Union was devolving into Weimar-style chaos. Claiming that Gorbachov was "losing the initiative," Soros warned that a continued devolution could "lead to a nationalist, socialist solution." Soros, however, did not feel the time was right for granting the Soviets MFN status.

The 'Polish shock' model

For the newly liberated nations of Eastern Europe, however, the Bretton Woods participants offered only austerity. Czech Finance Minister Vaclav Klaus said that his country would soon face an "oil-shock crisis." Beginning January 1991, the Czechs will begin paying the Soviets in hard currency for their import of oil and raw materials. Faced with the collapse of their own economy, Moscow will undoubtedly be less prepared to continue their export of oil and raw materials, except at a very dear price. At the same time, with increased trade potential from the West, Russia's demand for East European products will continue to dwindle.

Klaus, the strongest proponent in the Czech government of the diastrous Polish model of "shock therapy," was nevertheless very worried about the effects of these new economic conditions. He stressed the need for Western aid to cushion the blows of the "oil shock." Although he favored a rapid transition to a market economy, he was clearly conscious that the short-term costs of the transition might be "too heavy" and could lead to a demand for a return to dirigist methods and a recentralization.

This was also underlined in the presentation of Italian Foreign Minister Gianni De Michelis, who lamented the lack of any overall strategy in facing the new problems of Central Europe. "If reforms are successful," he said, "if social tensions meet with an appropriate response, if the expectations of the citizenry are satisfied, the potential for growth of this area and the benefits to the world and to Europe's economy will be extraordinary. Failure would mean political and economic disaster, the repercussions of which would be felt first by the European Community and the entire West."

De Michelis also pleaded for bringing the Soviet Union more and more into the economic picture, so that they "don't begin to feel isolated." "The increasingly stronger ties of Central and Eastern Europe to the Europe of the Community," said De Michelis, undoubtedly to the chagrin of the East European representatives present, "cannot prevail over those that have always existed between the latter and the Soviet Union, so that the three areas now appear more and more interdependent. . . . Should Soviet society and the Soviet economy risk collapse, the threat would extend to these contiguous and partially complementary areas." Therefore, the Venetian minister concluded, there is no East European aid package without a Soviet aid package.

The bankers' strategy with regard to Eastern Europe was given its starkest formulation in the presentations of International Monetary Fund (IMF) Director Michel Camdessus and World Bank President Barber Conable. As Conable succinctly put it, "If there is a little bleeding going on in Eastern Europe, that is a sign of life." Camdessus said that the other countries must implement the Polish "shock treatment" for a "swift and comprehensive reform." The East European countries must be willing to "draw down on their political reserves" in order to implement the austerity program.

Poland, still under the thumb of the KGB-military apparatus of Gen. Wojciech Jaruzelski, might seem to have "bitten the bullet"—at least for the time being—but what type of social conflagration will they be faced with if the democratically elected governments of Hungary and Czechoslovakia implement the IMF austerity? The austerity regime of a "free market" Thatcherite democracy may, as Vaclav Klaus seemed to indicate, lead people to long for the "good old days" of communism.

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