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## Poland

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# Shock therapy lethal, latest reports show

After four years of so-called free market reforms, the critics of shock therapy have amassed a devastating array of data to show the fiasco of the Darwinian liberalism implemented in Poland by Harvard Prof. Jeffrey Sachs, former Polish Finance Minister Leszek Balcerowicz, and their ilk. Two reports published in Poland within the last year paint a picture which should be studied by every nation which is being told to swallow this medicine.

While there has always been opposition to radical "shock therapy" economic policies inside Poland, it is less visible than the faction promoting free market reforms, which controls most of the mass media and sticks the label "communist" on anybody daring to question the need to introduce British liberalism into Poland. Now the critics have heavy ammunition for their case.

Contrary to the optimistic evaluations of the Polish market published in the western press, which stress the tremendous profits one could make on the Warsaw stock exchange (till its collapse in April), the decline of the physical economy and living standards only prove that Poland is undergoing a grave crisis.

A shattering picture of the Polish economy was presented in a report, "Between Collapse and Revival," by Prof. Eugeniusz Tomaszewski, published by the Polish Peasant Party (PSL) in October 1993.

### The Tomaszewski report

Professor Tomaszewski compares statistical data (provided mainly by the Polish Central Statistics Office) from 1989, 1992, and the first half of 1993. In the chapter devoted to industry, he points to the collapse of output in all main branches of industry. For example, between 1989 and 1992, production of coal collapsed from 178 million tons to 132 million tons; production of electricity collapsed from 145 terawatt-hours to 133 TWh; steel production dropped from 15 million tons to 9.9 million tons; electrolytic copper, from 390,000 tons to 387,000 tons; machine tools, from 48,000 to 16,000 units; electric spinning machines, 12 million to 5 million units; electrotechnical and technical porcelain dropped from 14,000 tons to 7,000 tons; fertilizers, 2.5 mil-

lion tons to 1.5 million tons; plastics, 721,000 tons to 644,000 tons; cement, 17,100 tons to 11,900 tons.

New industries and those which require modern technologies, especially, suffered due to the liberalization of the Polish market. In the pharmaceutical and electrical machinery industries, output declined by 40-50%. In electronics, production of semi-conductors dropped from 365 million to 38 million units; electron lamps, from 4.5 million to 0.7 million units. The report stresses that the problems of the Polish machine-tool industry cannot be considered simply a short-term difficulty, because the problems are reflected not only by the decline in production, but also by the decline in capital investment. Capital investment, which comprised 25.5% of all investment in industry in 1989, fell to only 18.8% in 1992.

The drop in consumer goods production is even more dramatic, because Poland has been flooded with foreign consumer goods. For example, production of washing machines collapsed from 21.4 to 9.6 per 1,000 inhabitants; television sets dropped from 20.3 to 15.1 per 1,000; cars, from 75.2 to 57 per 10,000 inhabitants; cotton and cotton-like textiles, from 20 meters to 6.3 m per capita; wool and wool-like textiles, from 2.6 m to 0.9 m per capita; paper, from 30.7 kilograms to 26.9 kg per capita.

The unfavorable rates and tight credit policy of the government and banks have been a serious obstacle to the development of industry and infrastructure. In 1991, Polish banks issued credits and loans amounting to 177,840.7 billion zlotys (approximately \$15 billion); in 1992, credits increased nominally to 197,515.0 billion zlotys, but if one takes into consideration a rate of inflation of 43%, it is clear that, in real terms, the amount of available credit decreased.

### Transportation and agriculture

Amid this general collapse, basic transportation infrastructure is also being dismantled due to the lack of funds to maintain it, let alone develop new systems. Professor Tomaszewski again puts forth revealing statistics. For example, the volume of goods transported dropped from 1,820 million tons to 1,388 million tons; passengers declined from 3.524 billion to 2.064 billion; railway track dropped from 26,644 kilometers (or 0.084 km per square kilometer) to 25,254 km (0.080 km per square kilometer). (The World Bank suggested that Poland close unprofitable railway lines and keep only 15,000 km.) Air travel routes also decreased from 135,000 km to 96,000 km, and the amount of goods transferred in Polish harbors dropped from 48 million tons to 46 million tons.

The collapse of transportation has severely affected the transportation equipment industries. Production of buses dropped from 9,100 to 1,300; trucks and tractors dropped from 43,000 to 19,000 units; railroad cars for goods transportation, from 4,600 to 700 units; passenger wagons, from 230 to 40 units (this includes the years 1989 and 1992).

For 1993, all parameters indicate further destruction of the economy. For example, investments in enterprises decreased by 5% during the first five months in comparison with the same period in 1992 (and that in current prices, i.e., without considering inflation, now over 30%), despite the fact that just before being voted out of office in parliamentary elections in September 1993, the government headed by Hanna Suchocka declared that the growth of the national economy would have reached over 4% by the end of 1993.

Indeed, the report of the Central Statistics Office showed that the amount of production sold, measured in Polish currency, increased 7.6% in the first half of the year. That increase allowed the government to proclaim the "success" of its program. However, as Professor Tomaszewski notes, this increase did not reflect actual growth of production but was connected to the fact that the government decided to introduce a new value-added tax (VAT) in July 1993, which prompted a lot of institutions and people to use their reserves to buy goods before the end of June. This is evidenced by the fact that the amount of goods sold collapsed by 8.6% in July, and private savings deposits decreased by 155 billion zloty in June compared with May, although previously there had been a steady growth trend.

In his report, Professor Tomaszewski also exposes the hoax of "enormous foreign aid" directed to Poland from the International Monetary Fund and other western institutions, as well as the supposed significant foreign investment. (In 1992, foreign investors allocated only \$284 million to capital improvements in Poland; otherwise they are buying existing assets cheaply.)

Similar alarming data are provided for Polish agriculture. The value of agricultural production decreased by 22% over 1989-92, and it is in even worse shape now, because costs of equipment, fuel, energy, fertilizers, and fodder have been constantly increasing. The report notes that the crisis was caused by the lack of a necessary element of state intervention to protect the Polish market from food imports as well as Polish farmers from indebtedness.

### **Social costs of free market reforms**

This bleak picture would not be complete without presenting the price that Polish society has had to pay for free market lunacy. Its consequences are well documented in the PSL report and further in the March 1994 book, *The State and Political Culture; Social Policy: Present State and Perspectives*, which was published in March 1994 and based on material prepared by the Presidential Council for Social Policy.

Symptomatic of the crisis is the fact that in 1992 the number of births was the lowest in the postwar era (516,000), while infant mortality was 18.2%, according to the World Health Organization, three times higher than the rate in Denmark. Life expectancy for men dropped to 66 years. Polish demographers term this the "over mortality of men," to de-

scribe a death rate higher than is otherwise explainable. The deteriorating economic situation has lowered the real income of households, which in 1992 was 26.4% lower than in 1989, and 40% of households were reported to have an income level below the so-called social minimum.

To a certain extent this is connected to the growing unemployment which, in 1993, was officially estimated at 15.9% (2.9 million people). But the authors stress that to get a real picture, one has to add those who chose to take "early retirement" (1.2-1.3 million). The number of retired and jobless is 11.7 million, equal to 75% of those still working (in 1989, this ratio was 39%). The job loss has not resulted from eliminating so-called hidden unemployment typical of a centrally planned economy; every third unemployed person lost his job as a result of an excessive openness of the Polish market to foreign imports, the lack of any protection of this market, and the lowering of tariffs in 1990-91.

The authors of the book not only collected a lot of data concerning health care, education, access to culture, and so forth, which all show a dramatic decline of the standard of living, but also pinpointed the reasons for the general collapse, namely, the liberal pro-free market policy of all "post-Solidarity" governments and their belief that "the invisible hand of the market" will somehow eliminate all the anomalies of the Polish economy.

### **Economic programs for the future**

Most important, however, in the case of both publications, is the perspective for an economic program for recovery. Professor Tomaszewski stresses many times the responsibility of the state to mobilize financial resources in order to support scientific research, development of new technologies, and their immediate integration into the economy (in 1990, only 0.2% of the budget was allocated to scientific research), as well as the mandate to protect the Polish market from the dumping of consumer imports and capital flight. He argues that the government should change its restrictive credit policy, which is now contributing to economic depression.

On April 15, representatives of the Schiller Institute participated in a seminar organized in Warsaw by the quarterly magazine *Wies i panstwo* (*Countryside and State*), also published by the Polish Peasant Party. The subject of the seminar was the policy of the European Union and the role Poland could play in it as a future member. Frank Hahn and Elisabeth Hellenbroich revealed the anti-production policy standing behind the Maastricht Treaty and the necessity of going back to de Gaulle's idea of a "Europe of the Fatherlands" based on the economic recovery program called the "Productive Triangle" which American economist Lyndon LaRouche presented back in 1989. Undertaking this kind of vast program of infrastructure building is the only way out of depression, which was well understood by the participants at the seminar.