A new bank for Eastern Europe

The behind-the-scenes battles over what the proposed new bank could do, reveal two opposing philosophies.

Top officials from 34 nations convened in Paris for two days of talks on Jan. 15 to thrash out details of a new institution which would provide credit for the economic reconstruction of Eastern Europe. Besides the 12 nations of the European Community and the EFTA countries of Western Europe, Poland, Czechoslovakia, and Hungary were present, as well as Japan, the Soviet Union, and the United States.

The proposal to create a new "development bank" for Eastern Europe was first tabled Nov. 18 in Paris by French President François Mitterrand at the summit of the 12 EC heads of state. Since then the fur has been flying as circles especially in Britain and the U.S. tried to come up with a plausible scheme to stop the emergence of a potent new West European bank capable of channeling tens of billions of dollars of low-interest credit into rebuilding Eastern Europe's battered economies.

As a result, no final decision was made Jan. 16 in Paris in setting the form of the bank. A few preliminary decisions were made which could ultimately enable the new bank to make a serious contribution. While all nations were invited to become shareholders in the new bank, it was agreed that starting capital and voting majority would be firmly West European, with 53% control. Equal shares of 8.5% will be held respectively by the U.S.S.R., Japan, and the United States. The initial capitalization of the "European Bank for Reconstruction and Development," was set at 10 billion European Currency Units (ECU), about $12 billion.

According to a spokesman for one leading continental European central bank, the development bank will be modeled on the European Investment Bank, the Luxembourg-based bank which finances regional development inside the EC. "The French want it to be modeled on the EIB and that will be the result as it stands. It will be a European bank in that respect." The distinction is vital. The heart of the closed-door battles in Paris, according to reports, was a split over what the new bank's task should be. The lineup reportedly was between an Anglo-American axis and a Franco-German centered grouping. In obviously guarded public press comments after the two-day Paris meeting, Mitterrand's special adviser Jacques Attali referred to "certain disagreements" among participants about the bank's structure and purpose.

Informed reports say the core issue is whether the new bank will be allowed to grant credit for major rebuilding of infrastructure in Eastern Europe, especially railroads and highways, electricity, and water projects. After 40 years of Communist economic planning and looting, such infrastructure is the *sine qua non* of any serious economic improvement. These reports say that Bush's Washington is the major voice, backed by Thatcher's London, insisting that the new bank be banned from infrastructure loans. The ruined infrastructure in Britain and the United States should amply discredit such silly objections.

The U.S.-British position is that the monies be limited strictly to "free market" private sector loans. In a compromise, the meeting agreed the bank would extend loans "essentially aimed at the private sector but not excluding public infrastructure projects." A second demand by the Anglo-American bloc was that the bank adhere to the overall requirements of the hated International Monetary Fund, the precise austerity formula which has sunk the Third World economies and now threatens the future of the Mazowiecki government in Poland. Attali dodged more pointed questions on the implications of this in a nervous reply to the effect that the new bank will be adhering to IMF requirements regarding country budget and balance of payments austerity, but he insisted, "this austerity is only for a short term."

The Franco-German side otherwise firmly favors pouring low-interest credit into rebuilding basic transportation and energy infrastructure in Eastern Europe. The French and German view is that the criteria applied by Western banks during their loans in the 1970s to Communist regimes no longer pertain to the revolutionary changes sweeping Eastern Europe since last autumn.

The Mitterrand initiative got further support from EC Commission president Jacques Delors. In a speech that same week to the European Parliament (Strasbourg), Delors called for an investment from the European Community of 19 billion ECU per year for the next 10 years—more than $200 billion over the decade to rebuild and invest in Eastern Europe's emerging economic potentials. The Delors proposal was warmly applauded by German Chancellor Helmut Kohl who took time to address a special gathering of the French elite at the l'Institut Français des Rélations Internationales on the issue of Franco-German cooperation in the rebuilding of Eastern Europe, in the context of an emerging Western European economic region.