

## Monetarists Take E. Europe's Central Banks By Storm

by Alexander Hartmann

A properly functioning national bank is a powerful instrument to build an economy and to preserve economic sovereignty. Look at the national bank of the United States, founded by the first U.S. Secretary of the Treasury, Alexander Hamilton: With money creation tightly controlled by the state, through the Bank of the United States, cheap credits were steered into those areas of the economy which were of the greatest benefit to the *common good*, and the nation prospered.

But, if the national bank is in fact just a central bank, as is customary today, it will be an efficient instrument to loot economies at the behest of the international financial community. For ten years, this has been the policy of eastern European governments and central banks. Unlike the former communist regimes, this policy had the cover of "democratic legitimacy."

This has been the case in Poland, where then-Finance Minister Leszek Balcerowicz, in cooperation with Harvard's Jeffrey Sachs, so dismantled the productive parts of Poland's economy in the early 1990s, that the country could not find the money for its army to fight the floods, in 1997, when heavy rains caused the Oder and other rivers in southern and western Poland to overflow their banks.

To be fair, it has to be said that Eastern European governments did not choose these policies on their own: They were always demanded of them by Western governments, as conditionalities upon which credits and assistance from the International Monetary Fund (IMF), or membership in the European Union (EU), NATO, or other organizations, depended.

### The End of 'Democratic' Austerity Policies

But, as American think-tanks such as the Rockefeller and Ford Foundations knew already back in the 1970s, austerity can only be imposed by democratic means up to a certain point. When this limit is reached, the population's acquies-

cence to being looted will end, and proponents of this policy will be voted out of office. Exactly this is happening now, in more and more countries in eastern Europe.

In Poland, the leading reformist candidates for the Presidency, Balcerowicz and Solidarnosc's Marian Krzaklewski, came in far behind post-communist President Alexander Kwasniewski. In the Czech Republic, arch-monetarist Vaclav Klaus was voted out as Prime Minister already several years ago, and replaced with a minority government of the Social Democrats under Milos Zeman. But, unfortunately, the Social Democrats chose to conclude a toleration pact with Klaus, essentially continuing the latter's policies. Hence, in recent elections for the Czech Senate, the Social Democrats have lost eight of their nine seats up for reelection.

In Romania, the biggest party in the governing coalition, the Peasant Party, in the elections on Nov. 26, failed to even make it into the parliament (see "Western Europe Fails To Address Worsening Balkans Crisis," *EIR*, Dec. 8, 2000). None of the reformist candidates reached the Presidential runoff, leaving voters with a choice between "Greater Romania" chauvinist Vadim Tudor and post-communist "Social Democrat" Ion Iliescu, or, as one news commentator put it, "between cancer and AIDS."

### Labor Reawakens

In many countries in eastern Europe, this rebellion of the voters has been accompanied by an upsurge of labor activism not seen for a long time, especially among public-sector workers.

In Poland, the Federation of Nurses and Midwives has been striking against low wages and bad working conditions for weeks. Up to now, strike actions were tailored so as not to endanger the life of any patient, but that may change. Dozens of nurses are on a hunger strike, as they had been on strike

last year, and none of the government's promises given at that time were honored. Polish nurses earn about \$150 per month, which is only one-third of the average wage in Poland. At the same time, 300 miners occupied the Economics Minister's office, protesting plans to consolidate the country's mines into three companies, which are to be privatized next year.

In Hungary, 10,000 health workers staged a demonstration on Dec. 9 against the government's health policies. The latest budget passed by the Hungarian government assumes that there will be no pay raise in the health sector next year.

In Belarus, some 168,000 teachers signed a petition demanding that their wages be increased to the average level of industrial jobs. The head of the Trade Union of Education and Science Workers has not ruled out a strike, but said that the union is too poor to support striking members financially. Similar demonstrations against poor living conditions were reported in Estonia, Croatia, Bulgaria, and Greece.

### **Turning Central Banks into Reformers' Fortresses: Poland**

Faced with actual or prospective election defeats, "reformers" are attempting to hold onto power by taking over eastern Europe's central banks. As under the present monetary orthodoxy, central banks are to be "independent" of the state and not subject to democratic control; in effect, they become "*Statthalter*" (i.e., plenipotentiaries) for the international financial oligarchy, guaranteeing the continued looting of the respective countries, like the colonial royal governors or vice regents of the British Empire.

President Kwasniewski appointed Balcerowicz as head of the National Bank of Poland, after the latter secured a majority of support in the Sejm (parliament) from his own Freedom Union and the governing Electoral Action Solidarnosc (AWS). The post had conveniently been cleared, when the former head of the National Bank, Hanna Gronkiewicz-Waltz, was named a vice president of the European Bank for Reconstruction and Development.

Reportedly, the AWS's support for Balcerowicz was part of a deal to postpone new elections to the Sejm, to gain time for the AWS to "regain voters' confidence." But, Balcerowicz's policies would doom any government that supports them, and the AWS, like the Romanian Peasant Party, soon might well go down the road to oblivion. A split has already emerged between the Solidarnosc trade union and two other AWS member parties. After all, Solidarnosc is a trade union, and the nurses' and miners' unions are part of the Solidarnosc movement.

President Kwasniewski will wash his hands of blame, saying that he was obliged by Poland's Constitution to appoint the candidate for central bank governor whom the parliament elects. Thus, his party stands to profit from the failure of the reformers, once elections come. But, the move might backfire: Kwasniewski is known to be a proponent of Poland's joining the European Union, with all this entails. As Romania

demonstrated, voters' disgust can produce unpleasant surprises.

### **The Czech Republic**

In Prague, there was a change at the helm of the Czech National Bank on Dec. 1. President Vaclav Havel, formerly known for literary qualities (whatever one may think of them), discovered his expertise in monetary policies. When the Czech government under Milos Zeman introduced a new law, which included putting the Central Bank under government scrutiny, Havel vetoed it, saying that it would endanger the Czech Republic's joining the EU. In fact, the new law was designed to adapt the Czech laws to EU standards.

Conveniently, just a few days after Havel vetoed the measure, Central Bank Governor Joseph Tosovski, who had been in office for 11 years and is a close friend of Havel, resigned, choosing employment with a Western investment fund. Thus, Havel had an opportunity to name a new Central Bank governor under the old law, which provided that the Central Bank governor is to be named by the President. The government cried foul play; according to the new law, the Central Bank governor would have been named by the government.

President Havel appointed hard-line monetarist Zdenek Tuma as Central Bank governor. At first, the Czech government threatened to contest Tuma's appointment in the constitutional court, saying that Havel needed the government's signature for the appointment to become valid. But, Havel turned the tables, saying that he had made all earlier appointments without the government's signature, and if the government insisted, he would invalidate *all* his earlier appointments. At that point, the Czech government gave in. Only a few days later, the Czech Chamber of Deputies overrode Havel's veto. But, Tuma will be in office for the coming six years, to impose the monetarist policies that the EU and the international community like.

### **Other Countries**

In Romania, Prime Minister Mugur Isarescu, whose party was voted out of Parliament in the Nov. 26 elections, announced that he will return to his former position — as national bank governor. It is well known in Romania, that then-Central Bank governor Isarescu was made Prime Minister one year ago at the behest of EU Commission President Romano Prodi, as a precondition for negotiations for Romania's admission to the EU. At the time, it was transparent that the days of the Romanian reformers were numbered, and Isarescu accepted the premiership only on condition that he could resume his former position once he left the Prime Minister's office, which was granted by the Parliament at the time.

Now, the newly elected President Ion Iliescu's Party of the Social Democracy has announced that it wants to change both the leadership and the laws under which the Romanian national bank operates. But, it remains to be seen whether these are more than empty words: Iliescu has been President

of Romania before (1990-96), and it was under his Presidency that the so-called “reform” policies were introduced. After he had won back the Romanian Presidency, he pledged to work toward EU and NATO membership, and said that he hopes to come to an agreement with the IMF soon.

New bank governors have been or will be appointed in Yugoslavia and in Hungary, too. In Hungary, Prime Minister Viktor Orban has announced that he will not reappoint the current head of the Hungarian National Bank, Gyoergy Suranyi, but replace him with current Finance Minister Zsigmond Jarai, who has announced that he will accept the job only if a law is passed which adapts the Hungarian national bank law “to EU standards.”

In Yugoslavia, Mladjan Dinkic was elected head of the Yugoslav National Bank by the reformers in the Yugoslav Parliament around President Vojislav Kostunica. When the Parliament wanted to vote in Vuk Ognjanovic as Dinkic’s deputy, Dinkic objected, claiming that Ognjanovic had been involved in the Slobodan Milosevic regime’s hyperinflationary policies. Finally, acceding to Dinkic’s demand, the Parliament voted in Radvoje Rasovic as vice governor of the National Bank.

### **What Is To Be Done?**

In order to prevent monetarist central bank governors from ruining the economy, national parliaments have to turn central banks into Hamiltonian national banks. If there are such clear and precise laws to follow, the central bank governors can choose: Either, they obey the law and act as national bank governors, in which case they will cease to be dangers to the national economy, whatever their private opinions may be. Or, they will “stick to their principles,” and resign from offices, which they, by law, will be prevented from running according to monetarist theology. Or, if they abuse their positions, imposing monetarist policies in violation of the national bank laws, they will open themselves up to impeachment.

If the EU or other international organizations object to this, they should be told: “So what? Under its current monetarist ideology, joining the EU is like joining a suicide club. We would rather found a ‘Survivors’ Club,’ and you are invited to join *us*, on condition you stop messing around with our economy.” Thus, the fight about economic policies can still be fought democratically. If this is not done, the public reaction to the monetarists’ looting will lead to disasters similar to Hitler’s accession to power in 1933.

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# Israeli Elections: To Bibi Or Not To Bibi?

by Dean Andromidas

Just at the point the Middle East is poised to explode in a regional conflagration, Benjamin “Bibi” Netanyahu has returned to the political stage. Riding on the crest of popularity polls giving him a lead over Israeli Prime Minister Ehud Barak in the upcoming elections, Bibi, himself a former Prime Minister, appears as the right wing’s Mephistopheles, with promises of political power, but at a devilish price. His announcement on Dec. 10, that he will seek the nomination for Prime Minister, is a dramatic demonstration how the Middle East situation, and the Israeli political scene in particular, has degenerated since the collapse of the Camp David summit last July and the launching of religious war by Ariel Sharon’s Temple Mount/Al Haram Al Sharif provocation on Sept. 28.

Although his announcement was not unexpected, it was premature, and, in fact, prompted by Prime Minister Barak’s surprise resignation only the night before. Barak’s decision appears to have been a tactical move to save his own political skin. Unwilling or unable to make the concessions required to facilitate the restarting of talks with the Palestinians, Barak had been under pressure from the “revolt of the doves,” as it is being called by Israeli political commentators. This revolt reportedly involved members of the peace camp in Barak’s government, including Minister for Regional Economic Cooperation Shimon Peres, Justice Minister Yossi Beilin, and Speaker of the Knesset (parliament) Avraham Burg. Rumbblings were heard calling for an alternative candidate to Barak, one who would work harder for a peace agreement.

At the same time, on the right, Netanyahu was busily involved in intrigues, both in Israel and abroad, plotting his political comeback.

On top of this, negotiations for an emergency or national unity government between the Barak’s Labor Party and Netanyahu’s Likud, were under way. The biggest promoters of this option have been Likud Chairman Sharon, unaffectionately known as the “Butcher of Lebanon,” and Barak himself, along with other more hard-line Labor ministers.

Barak’s resignation, which mandates a special election for prime minister to be held within 60 days of his resignation, has put a halt to attempts by the peace camp to seek his replacement, while at the same time calling Netanyahu’s bluff and forcing him to declare earlier than he would have liked.