bubbles, there is nothing in sight that could induce foreign investors to maintain net flows into U.S. markets of $400 to $500 billion—besides perhaps the issuance of giant amounts of high-yield, government-guaranteed "war bonds."

Once the dollar crashes, the well-known horror scenario might take place. The Fed will have to raise interest rates to defend the dollar, thereby shutting off the engine for the real estate bubble. In the recent few years, rising home prices have played a key role in keeping the United States going, in particular since stock markets were crashing. Sales of both new and used homes hit records in 2001, with year-over-year price gains of 8% in February. Over the past two years, home-price growth alone has added nearly $2 trillion in wealth to U.S. household balance sheets, partially offsetting a $4 trillion decline in household stock-market investments over the same period. Rising interest rates would finally burst the real estate bubble, with far-reaching implications for U.S. consumer spending and therefore the U.S. economy, and also for the already very fragile financial system worldwide.

Telecom and Corporate Defaults

The fear factor in the financial system is further heightened by an unprecedented wave of mega-bankruptcies. Almost every day, another large corporation, most often in the telecom sector, defaults on corporate bond obligations or files for bankruptcy.

Already in the first quarter of this year, we saw the bankruptcy of U.S. fiber optic operator Global Crossing, the biggest telecom bankruptcy ever worldwide. The company defaulted on a total debt of $11 billion after laying 160,000 kilometers of mostly idle fiber optics nets, in 27 countries. Other telecom companies, each with debt of more than $1 billion, followed.

In the meantime, there is a related bankruptcy wave among the leading European cable television providers. The British cable-TV provider NTL, a few weeks ago, defaulted on $17 billion of corporate bonds, the largest such default ever, worldwide. Much more is to come. According to rating agencies, the number of defaults on corporate bonds is about to reach historic records this year.

Many chief executives of technology companies no longer worry about any recovery in sales this year or later. They are struggling to prevent their companies from defaulting tomorrow or next week. The list of troubled companies with debt volumes in the range of $5 to $30 billion is rising by the day, in particular among the large telecoms:

- WorldCom, the second-largest U.S. long-distance phone company, on May 15 broke the historic record of daily traded stocks, set by Enron last year, as the $30 billion debt of the company has been downgraded to "junk" by Standard & Poor's. If WorldCom doesn't receive new cash from its creditors, it might have to file for Chapter 11 in June. On May 15, the company announced that it would tap its last existing bank credit line worth $2.65 billion. WorldCom stocks have fallen more than 90% since the beginning of this year alone.
- Adelphia Communications, the sixth-largest U.S. cable-TV operator, on May 15 defaulted on some of its $19 billion outstanding corporate bonds. The same day, Moody's warned that a bankruptcy filing by Adelphia may be "unavoidable," and the chairman and chief executive of the company, who founded it 50 years ago, resigned. In late March this year, Adelphia admitted that it had built up off-balance-sheet transactions to hide parts of its debt. Since then its stocks crashed by more than 80%.
- KPN QWest, the Dutch-American cable-TV operator, saw its stock price plunging 57% on a single day on May 15, after banks, stockholders, and other creditors refused to bail out the company with new capital. A bankruptcy filing is expected in coming weeks.
- On May 16, Britain's leading telecom equipment producer Marconi confirmed that it is asking creditors to exchange debt for equity, as probably the last option to prevent bankruptcy. Marconi is right now in emergency talks with creditors to restructure $6 billion of debt. Its stock prices on that day alone fell by 15%. First quarter new orders fell by 54%.

Other telecoms are still reporting huge losses and are preparing large job cuts. Telecom suppliers such as Ericsson and Lucent were reporting a further 40% crash of new orders during the first quarter. Ericsson will cut 17,000 jobs; Lucent, 6,000; Siemens, 6,500. Cable & Wireless in Britain announced a $7.4 billion annual loss and its chief executive Graham Wallace warned, "The market we operate in won't stabilize probably for another 12 months." Both the chairman and the finance director of the company resigned. Nippon Telephone and Telegraph (NTT), the world's largest phone company, posted the biggest full-year loss ever by any non-financial Japanese company—$6.4 billion. Deutsche Telekom in Germany is expected to cut about 30,000 jobs within the next three years.

Poland: 'We Have A Feeling Like 1939!'

by Frank Hahn

Visiting Poland this Spring, one is shocked at how much more acutely than in Germany, for example, the world crisis is perceived. Voices here, and not only among the elders, repeat in various ways, the same point: "We have the same feeling as in 1939."

Representatives of the Schiller Institute were invited by political circles to present an alternative to the feared world war and depression: the concept of the Eurasian Land-Bridge.

On May 20, Elisabeth Hellenbroich and this author spoke on this subject before the "Society for Polish Collaboration with the East," a body which is responsible for the "area between the Bug River and the East China Sea" as one participant jokingly remarked; but which, especially since Russian President Vladimir Putin's visit to Poland in January 2002, plays an increasingly important role in intensifying the collaboration of Poland with its eastern neighbors.

Some 30 participants from industry, government circles, and the farmers party, PSL, came to engage the Schiller Institute in discussions. Two themes stood out: How can Poland avoid the fate of the Argentines? And, how shall the construction of the Eurasian Land-Bridges be financed, so that the Poles themselves could immediately begin to participate?

Lautenbach Plan or EU Austerity?

Here, of course, the most painfully raw nerve of the current political discussion was jabbed. Since the beginning of the year, several initiatives have been made, including the PSL's formation of the Council for Monetary Policy (RPP) to modify the National Bank. This reflects the desire to again allocate credit to stimulate the collapsed economy, breaking the ideological fixation on fighting inflation. At the end of May, the Polish parliament deliberated upon this motion. Immediately, loud noises came from the European Union bureaucracy in Brussels. Poland's EU membership would be placed in jeopardy, in the event that the "independence" of the Polish National Bank from the sovereign national government were no longer to be guaranteed.

The Euro-skepticism of the Poles only grew stronger, for, why should they join the EU, which declares its iron-clad austerity policies to be the highest principle, when their implementation plunges a country into social chaos? In several rural regions of Poland, unemployment amounts to 60%, and malnutrition among children and youth is reported.

The role of the National Bank was passionately discussed at another Schiller Institute seminar at the PSL party headquarters. The presentation dealt with two themes: the background to the crisis in Argentina, and the principle of state credit creation, from Gottfried Leibniz through Alexander Hamilton and up to Germany's Friedrich Lautenbach in the 1920s-30s. The last communist regime of Poland, in 1989, was already under orders by the International Monetary Fund (IMF) to destroy the Polish National Bank, to split it up into nine private commercial banks. Now, there still is a national bank of sorts, constituted somewhat like the Federal Reserve in the United States: an "independent" currency-issuing bank.

With this arrangement, an "Argentinization" of Poland has been observable, In both countries, 67% of the banks are now in foreign hands. In Poland, many now fear an accelerating, organized capital flight, should the edifice of the overly high interest rates and the overvalued currency crumble under the pressure of the difficult economic crisis, and the "parked" foreign capital investment be withdrawn.

Resistance to IMF, Brussels Growing

That the illusions of early 1990s Poland have long since popped, and that institutional resistance is awakening, became evident in the course of many discussions with parliamentarians, government representatives, and church officials.

In cultural and church circles, there is tremendous concern about the nihilistic cultural turn in the country. The youth are completely in the grip of the most negative aspects of Western culture—violent videos and computer games, drugs, excessive television viewing, and so forth. It is very clearly observed in Poland, that the downward path of this European nihilism is taking a sharp shift toward becoming a fascistic movement. As a result, the question of the significance of religion in the new Europe is important.

On all levels of politics, one encounters an increasing skepticism with respect to the EU, even among those who recommend joining it. The arrogance of the Brussels bureaucracy with respect to patent registration and copyrighting, in the area of infrastructure and new technologies, is viewed with increasing displeasure. As never since the communist days, all sides of the political spectrum stress the intensification of cooperation with Russia, Central Asia, and China.

Beyond nationwide demands to change the National Bank's policy, discussion is quite fiery on an additional point: The neo-liberal suppression of the most beneficial state intervention to promote the general welfare, against the insolvency of the Szczecin Shipyards. The shipyards had been considered the exemplary industrial firm in all of Poland, the one example of a successful privatization. But now the 5,000 Szczecin workers have not received a single paycheck since January, and, despite the shipyard's books being loaded with back-orders, it is insolvent. Is the corrupt Polish management responsible, as Poles are told? Rather, investors who do not reside in Poland, but in the United States, refuse to place further credits at the shipyards' disposal. Poland is now on the verge of renationalizing Szczecin.

Finally, there are interesting new events in the area of infrastructure policy: Reports are circulating that Prime Minister Jerzy Miller intends to resume construction on Poland's first nuclear power station, which had been interrupted shortly after 1990. To this purpose, a study was produced by the Infrastructure Ministry regarding the relationship between unemployment and the development of infrastructure. The ministry concluded that many people in the countryside cannot find jobs, on account of terrible bottlenecks on scarce rails and roads. Building urgent infrastructure has been impeded by the monetarist austerity ideology. What is necessary is credit generation through the National Bank, directly to the government ministries responsible for infrastructure.

The picture gained of the Polish situation reflects an exciting political vitality. Only the fear of war acts as a paralyzing factor; otherwise, forces are mobilizing themselves with concrete plans to survive the current bankruptcy of the state.