What Price Usury?

While driving on Interstate 80 recently, I saw a tractor trailer that was marked “Gdansk Poland” and advertised its load of “Polish Hams.” The trailer had been hauled by container ship to New Jersey and mated with a rig that would carry the food from Poland’s farms to America’s dinner tables. That night the TV news showed CARE packages being distributed from a trailer in Warsaw to people whose food consumption has been cut drastically. And the U.S. Government is planning to send $700 million in food credits so that Poland can export still more of its food. This Kafkaesque process is called an exercise in “international finance.”

For an idea of how extensive are the food exports from Poland, I called the commercial office of the Polish Government in New York and spoke with Daniel Zybylski, an economic statistician. Poland’s meat exports, he reported, are 30 per cent of its total exports—an average of $170 million a year, with most going to the U.S. As meat depends on wheat and grain feed, these exports drain huge quantities of other foods from Poland. At present the export of 180,000 tons of agricultural goods, which was intended to finance the import of 320,000 tons of sugar and other agricultural goods, is being used to finance debt payments. Ergo the Polish “hunger.”

Two villains are responsible for this economic insanity: the Polish Government and the Western banks.

The government of Edward Gierek, overthrown last August, had borrowed and squandered over $27 billion in new loans since 1970. One Polish observer in America expressed the fear that some, if not most, of this money was siphoned off by Russia. The remainder was squandered on such ill-conceived projects as a cornflake factory, which had to import a special “cornflake” wheat and even then found no market for its product. Some of the money went into the pockets of high-living government officials (including former Prime Minister Jarosewicz’s son, Andrei—who, it is reported, built a villa with imported gold fixtures for his bathroom). So corrupt were these years that the finance minister under Gierek has since committed suicide rather than face criminal charges. For ten years the money flowed and life clearly did improve for the Polish people; but much of the surplus cash was invested in unproductive ways—proof that a Communist bureaucracy can be as greedy and stupid as any in the world.

But it takes two to squander. Western governments, especially European ones, and Western banks, again mostly European but also including the cream of America’s crop, abetted this process by lending money with what seems to be reckless abandon. In the normal course of events bankers are quite prudent men, yet from press reports and interviews we learn that the banks did not exercise much prudence in the Poland case. We learn that the banks failed to obtain even basic information about Polish trade receipts and expenditures in other Communist nations and failed to inquire whether the latest technologies were in use.

The crunch came in ’79, when Poland’s “investments” failed to produce exports that generated enough money to pay for their loans. The West was in a recession and unable to absorb Polish goods. But it was as much a factor of incomplete factories, shoddy or technologically outdated products, and of squandered capital. In March of ’81, when Poland began defaulting on its debts, it asked to be freed of both interest and capital repayments for several months and also requested an $11 billion loan to get its economy on its feet. Not only did the country lack the foreign exchange to pay its debt, but it needed cash to buy spare parts, fertilizers, and so on to keep the imported factories running.

At this point the Western banks woke up and began to act as if they cared about how they loaned out other people’s money. At the insistence of U.S. banks, Poland maintained its interest payments and began to provide Western financiers with detailed data. They acted none too soon, for had Poland’s debts turned sour completely, the integrity of the world financial system would have been threatened.

The moral is clear. In an age of global trade we need business leaders, manufacturers, and financiers who act responsibly—toward their borrowers as well as their depositors. Nor is the case limited to Poland; oversell and overfinance have led to similar problems in a score of countries, including Zaire, Turkey, Peru, Yugoslavia, and Jamaica—all of which have faced debt crises in the past few years.

The immorality of such “usury” is that the people who must pay for this greed are not the government borrowers or the financiers but working people. In Poland, food is reduced to pay for these debts. Elsewhere real wages are lowered so as to generate the surplus necessary to pay outstanding debts. This is the worst side of modern multinational business, a side we hope will be eliminated with more farsighted and decent managers in the years to come.

To condemn the banks, however, is not to exonerate the Soviets, Gierek, or the tyranny associated with the Soviet bloc. At issue is the evil of quick profits from clients who have misused the public trust. The fly-now-pay-later sort of international finance in this instance ill-served the Polish people, who are on the verge of achieving a significant degree of freedom from Soviet domination.

One hopes that Poland’s current financial crisis will not lead to a reversal of the gains in freedom it has already won or lead Western bankers to decide that their interests coincide with those of the Soviets. For there are some in the West who believe that only the USSR can “stabilize” Poland and make sure that its debts are paid.

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