



THE ECONOMIST HEARD ROUND THE WORLD

PART 2

How do Poles themselves see the drastic economic experiment described (page 30) by globe-girdling adviser Jeffrey Sachs? Here a correspondent who knew Solidarity from the beginning brings us face to face with a bold government and long-suffering people.

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By Janine R. Wedel

A LOT IS AT STAKE IN POLAND. Warsaw has, in essence, bet the farm (and the home and factory) on its high-risk, cold-turkey journey into capitalism. Poland's economic plan reflects the best wisdom of its own ministries, the International Monetary Fund, the World Bank, and advisers from around the world. It is being watched with painful closeness by other East European countries whose economic predicaments are grimly similar.

Half the nations of Europe are confronted with turning stagnant command economies into market

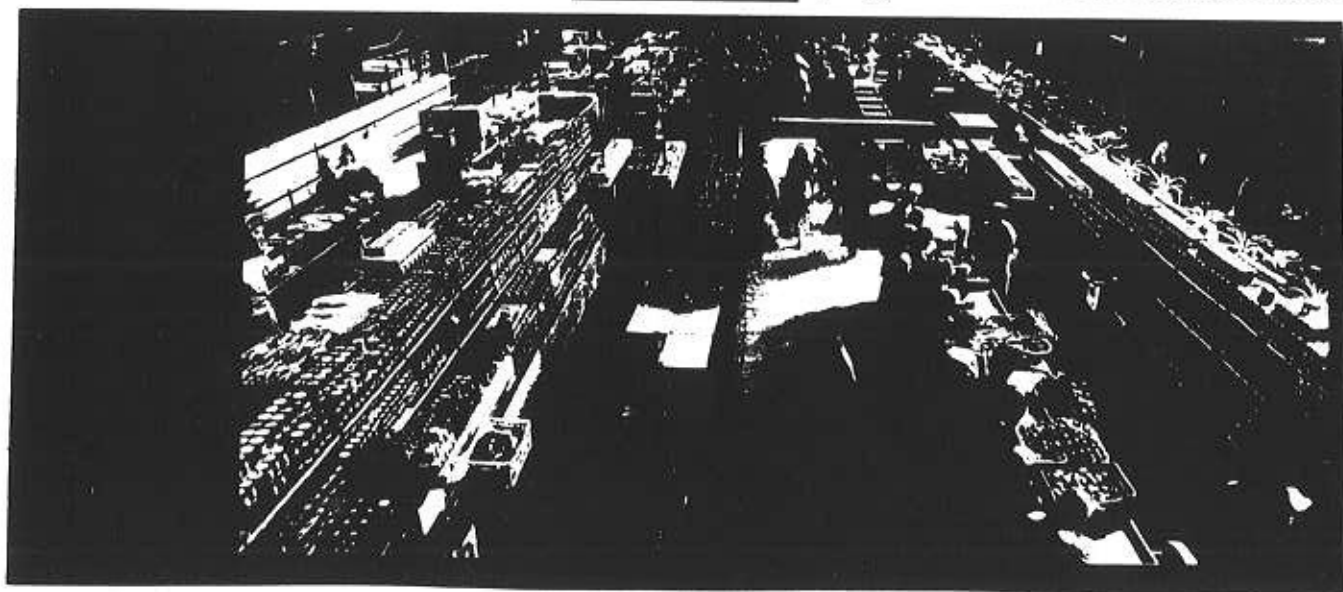
Dr. Janine R. Wedel ('Lech's Labors Lost?' WM, November '89) is a Fulbright scholar and anthropologist who has spent four years studying the reasons for the breakdown of communism in Eastern Europe since Solidarity emerged in 1980. She is author of 'The Private Poland' (1986) and a new book coming early next year (Columbia University Press).

ones. Only Warsaw has tried to go so far, so fast.

Other governments in the region have embarked on much slower, more cautious journeys. From President Václav Havel in Czechoslovakia to populist leader Boris Yeltsin in Moscow, policymakers are dancing around the Polish experiment. They watch it intently. They want it to succeed. But they don't yet believe.

The perceived success or failure of Poland's experiment may shape the economic future from Prague to Vladivostok.

Yet there is no fail-safe formula, and there are no tested experts. Harvard economist and global inflation fighter Jeffrey Sachs arrived on the Polish scene bearing advice at a pivotal moment—the spring and summer of 1989. The Communists had



just relegalized Solidarity after eight years of underground struggle, and Solidarity had won by a landslide in the country's first semi-free vote in half a century.

Solidarity's newly elected leaders were for the most part Roman Catholic social activists, but the situation forced them to seek solutions in the context of austerity. They faced the imminent perils of runaway inflation, enormous foreign debt, an underdeveloped agricultural sector, and mammoth, antiquated, state-owned factories that nominally employed more than two-thirds of the labor force.

ENTER A CHARISMATIC MESSENGER

The leaders also faced the public's lofty expectations. Having finally buried communism—the great obstacle that had kept them down—voters expected that their representatives could



electricity, and rent. As one taxi driver put it, "Anyone who says the crisis is over sure doesn't have to support a family on my pittance."

A telling exchange took place this past spring when Sachs and some 20 Polish journalists gathered in the same Council of Ministers building in which Communist functionaries had presided for nearly half a century. It was then nine months after the Solidarity government officials moved into the building, where the long corridors are still carpeted in red, the stately doors still trimmed in brass. Career soldiers still stand guard, having outlasted the Communist bosses who hired them.

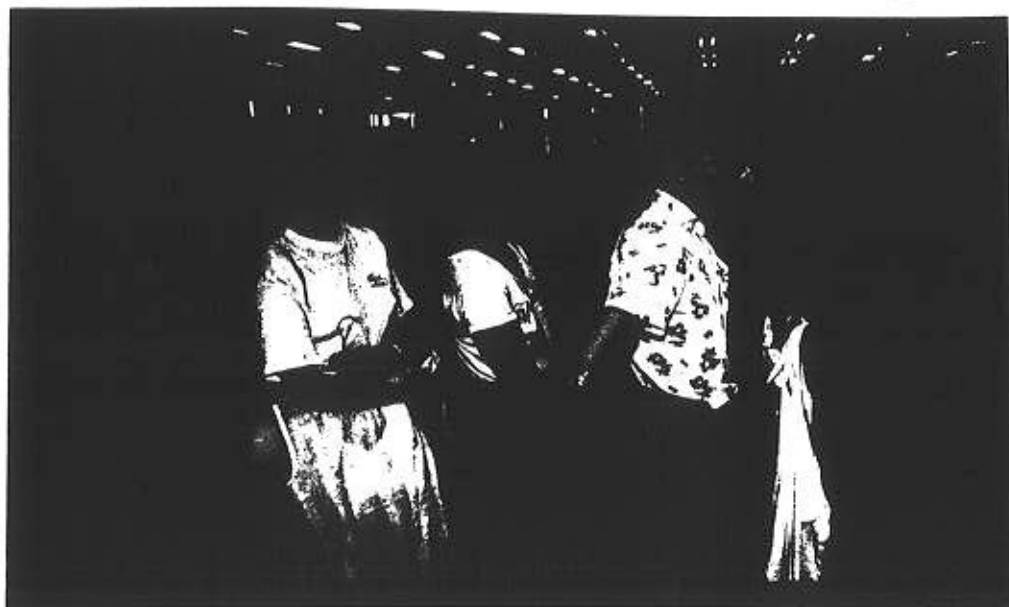
The 35-year-old Sachs was in Poland for three days, one of about a dozen trips he had made to Poland in the past year. He wore a dark suit and tie and spoke in English using a Polish translator. Leaving less time than allotted for questions,

Sachs held forth on the Polish economy.

"There were many skeptics," he stressed, his voice rising. "And I think so far they've been proved wrong and the program has been proved correct."

The journalists, representatives of Poland's major newspapers, were seated around a polished, horseshoe-shaped oak table. Few took notes.

One journalist told Sachs, "I understand your position, but luckily you don't have to live here on \$30 per month." Another saluted Sachs, ironically, as "the godfather of the



Polish reforms" and queried him about unemployment.

To worry about a few hundred thousand unemployed is just "nonsense" in your press, Sachs chided. The government estimates that 5% to 15% of the labor force will be thrown out of work this year.

transform the system and change the economy. People yearned for simple, straightforward solutions. Sachs had one to offer. While Polish economists were stressing sacrifice, Sachs peddled an attractive alternative—economic change with relatively little pain. Poland had many able economists, but, in a country so long denied the gains it knew had been realized farther west, only an outsider could galvanize public opinion and fill the vacuum.

A thoroughly ambitious, confident, and sanguine American from prestigious Harvard University, Sachs personified Polish expectations of the idolized land. But the charismatic messenger and the popular message may not prove effective over time.

In the summer of 1989 Sachs predicted an end to the suffering: "The crisis will be over in six months."

But more than six months into the economic program implemented last January, 65% of Poles surveyed by the government say their family's living standard has worsened. Since Jan. 1, when the Solidarity government lifted price controls in an attempt to curb raging inflation, prices have soared and Poles' real incomes have declined by about 30%. Most Poles now spend more than 70% of their income on food, and five to 100 times the amount of a year ago on medicines,

THE DANGER OF 'CHICKENING OUT'

The real danger, Sachs continued, is not unemployment but the possibility that the government will "chicken out" and ease up too early, allowing inflation to shoot up again.

When one skeptic spoke up, Sachs responded, "That's a Polish way of talking." He brushed off another, "What's your doubt? I don't understand your doubt."

After talking to the journalists for 40 minutes, Sachs returned to the marble columns, ornate chandeliers, and spacious lounges of the five-star Marriott Hotel, an oasis for the recent flood of Western curiosity-seekers and businessmen. Yet the worlds of West and East remain about as far apart as the five-star Marriott is from most Polish apartments.

Sachs, though perhaps the best publicized, is just one of hundreds of advice-laden Americans who have poured into Poland and other Eastern European countries since the Communist regimes toppled last fall. Consultants, law firms, and

investors, offering expertise and occasionally money, all have come, some invited, many not. The advisers and advisees have needed, and learned to use, each other. Adapting the wisdom of the West to their own realities, the countries of Eastern Europe are faced with confusing choices. Advisers like Sachs embody all the potential promise and doubts arising from these choices.



LATIN AMERICAN PREVIEW

Jeffrey Sachs has been a frequent adviser, often underwritten by the United Nations, to debt- and inflation-ridden Latin American governments. In the past year and a half, he has branched out into Poland and other Eastern European nations. Many of Poland's economic problems—debt management, high inflation, overvalued currency—are familiar to him. They occurred in Latin America, too.

With few days off between trips, Sachs shuttles between Harvard and La Paz, Quito, São Paulo, and Warsaw, delivering economic prescriptions. Back home he relays information gleaned from the corners of the globe and lobbies lending institutions and Western governments to reduce his clients' debt burdens, which often puts him at odds with the banking establishment.

London's Economist weekly called Sachs "the leading western adviser to the economic reformers of Eastern Europe"—a laurel Sachs does not spurn. He adds: "Frankly... I've seen more of them [hyperinflated economies] than probably any trained economist in the world, because I've been involved in one way or another either analyzing or helping to stop most of the hyperinflations in the 1980s." The New York Times wrote that the January economic reforms were "largely the brainchild of Harvard professor Jeffrey Sachs."

But the Poles who engineered the reforms—such as high-level officials in the Ministry of Finance, the head of the National Bank of Poland, and the director of the Institute of Finance—say that Sachs was one of many advisers and that his ideas tended to replicate the conventional wisdom of the International Monetary Fund (IMF). Well-placed observers in the US State Department and Congressional Research Service, as well as the director of the European department of the World Bank, say the same thing.

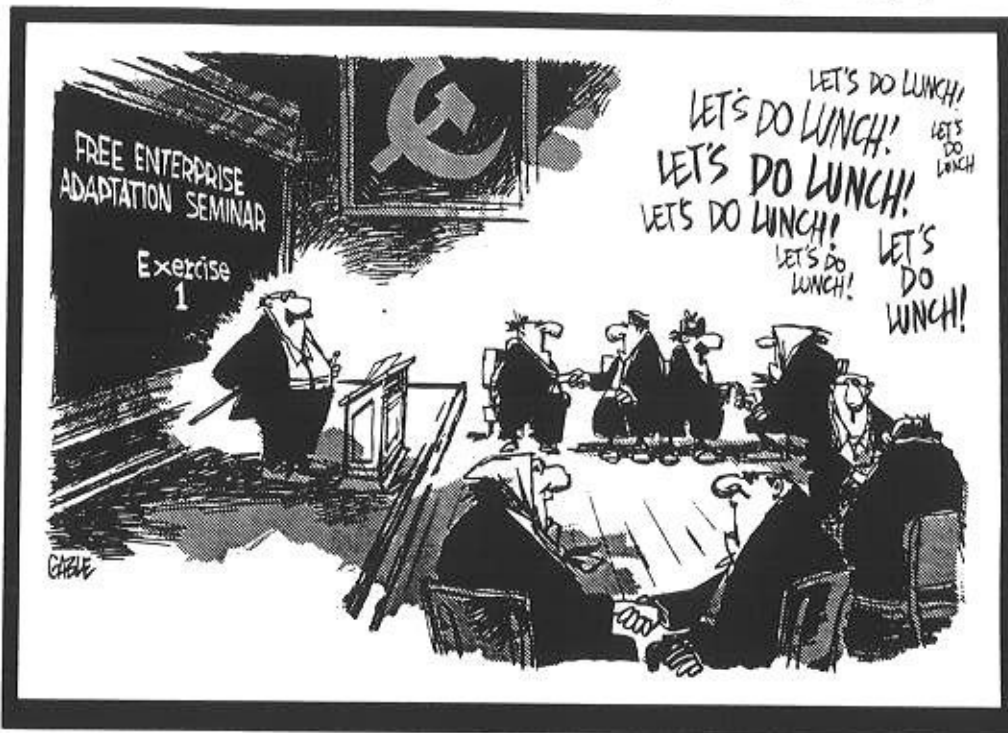
In fact, Sachs, not the Poles, largely initiated his Polish venture. Sachs never has been a formal hired or paid adviser to the Polish government or to any Solidarity organization. At first he was funded by George Soros, a Hungarian-born American who now is both a philanthropist and investor in

Eastern Europe. As of this past July, Sachs and several colleagues are being paid for a major Eastern European project by the United Nations University in Helsinki.

Sachs's brief introductory tour to Poland in the spring of 1989 resembled that of many other professors visiting Eastern Europe. He gave a couple of talks and met with academics eager to exchange ideas.

When he returned to Poland that June, Sachs made the contacts that set in motion six months of frenetic activity that had a major and still controversial impact on the public debate.

Sachs met Grzegorz (Larry) Lindenberg, a 34-year-old businessman, at a Warsaw dinner party—the man who would thrust Sachs into the limelight. Lindenberg had just been chosen to manage Solidarity's new daily newspaper, Gazeta



Wyborcza, already one of the most widely read in Poland. He was connected with Solidarity's intellectual elite, which would later form Solidarity's bloc in parliament.

Lindenberg is short, slight, casually dressed, friendly and smiling behind a bushy beard, armed with a great sense of humor and an appearance much more like a 16th-century Polish philosopher than a businessman—a sharp contrast with the modernist Sachs. But Lindenberg the private businessman and Sachs were natural allies. Preaching upbeat capitalism, Sachs became the perfect vehicle for promoting the cause of Lindenberg and other free-marketeers who wanted overnight conversion to a market economy and a free rein for the private sector. As Lindenberg put it, "Sachs was a great authority on market capitalism and he became a catalyst for our ideas."

By late August of 1989 Sachs had outlined the "Sachs Plan." Printed in a small, authoritative economics newspaper, the plan urged Solidarity to seize its mandate before it evaporated and move decisively to an unabashed market economy



with private ownership, free trade, and strong integration with Western Europe. To achieve these goals the country should reduce its budget deficit by eliminating subsidies and price controls; it should tighten the credit supply, lift export-import restrictions, sell off state-owned industries, and nourish the private sector. To help dampen inflation and open the economy to international trade, Poland should move quickly to limited convertibility of the zloty by adopting a stable exchange rate and thus abolishing black-market rates.

Sachs acknowledged that these measures would force up prices and unemployment in the short term, but he promised that in six months galloping inflation would end and within two years Poland would be on its way to recovery.

180-DEGREE TURN

Some of Solidarity's leaders had turned 180 degrees. Solidarity was committed to broad socialist ideals when it was first legalized in 1980 as a labor union and mushroomed into a mass social movement. With Lech Walesa at the helm, Solidarity had fought for workers' rights and for the betterment of everything that the socialist state had guaranteed its citizens, such as cheap health care, housing, and social security benefits.

Lindenberg had suffered for these ideals as a martial-law prisoner in 1981-82. Jobless and penniless on his release, he joined other determined activists redirecting their efforts from political to economic activity and preaching a new philosophy of self-reliance.

The worsening economy and weakening government of the late 1980s opened the door for computer trading and an array of lucrative ventures. Lindenberg's aspirations soared, as did those of many of his peers when Solidarity swept the June election, signaling the collapse of the Communist state and the enshrinement of free markets.

Many of Lindenberg's activities are aimed at helping his country get back on its feet. As he gave me a lift in his new Toyota, he also acknowledged frankly: "I want to make a lot of money. There will be lots of ways to do it in Poland and it would be a sin not to."

Lindenberg began taking Sachs around, introducing him to key leaders, including Adam Michnik, his boss at the Solidarity Gazeta daily, and Jacek Kuron, now minister of labor. Gazeta promoted Sachs and his views in a score of articles and recommended him to Poland.

While other foreign advisers in town limited their consultations to closed-door meetings, Sachs appeared on prime time. His televised speech before the Solidarity Parliamentary Caucus in September '89 galvanized public opinion, including some of the country's new leaders. Among his points:

- It's necessary to take common-sense action.
- You won't succeed if you don't.
- If you act dramatically and make an impression, you will get money from the West.

- Do something brave.
- Figure out how much society can take, and then move three times quicker than that.
- If you jump into the market economy, you will be first in line for credit—that's a promise. Inflation will vanish and the standard of living will begin to rise within six months.

Sachs, whose presentation contrasted dramatically with the ceremonial and often dull parliamentary sessions, received a standing ovation and press coverage that bordered on adulation. Viewers spoke not of the content of his message but of his incorrigible optimism, confidence, and courage—even his smile.

On the same September day on which Sachs addressed the Solidarity caucus, Solidarity formed a government. (Solidarity had resisted taking over the top levels of government since its June '89 victory, fearing the blame for Poland's economy might be laid at its feet.) Walesa named Tadeusz Mazowiecki, a mild-mannered Roman Catholic journalist, to be Poland's prime minister, and Mazowiecki formed a Cabinet. At once the Solidarity government began tackling its main task—the economy.

Leszek Balcerowicz, at the age of 40, was handed one of the most thankless jobs in Eastern Europe, deputy prime minister and head of Poland's Ministry of Finance. Known as a brilliant economist, Balcerowicz, together with a stable of Polish economists, had been sketching out models to transform Poland's economy since the early 1980s—before it became the thing to do.

He shared the view of the IMF and many advisers, Polish and foreign, that radical measures must be taken, and he swiftly assembled a team.

The most pressing task was to stabilize prices. Beginning in August '89, prices shot up an average of 30% to 40% monthly after having already risen 50% in the first half of that year.

The second task was long-term—to privatize state-owned enterprises (about 80% of Poland's industry) and to completely overhaul the centrally planned system.

Timing was critical. Many Solidarity planners had at first advocated undertaking these tasks simultaneously, but by August the inflation had become so serious that checking it became the main priority. The new leaders seemed driven by the awareness that, should they misstep, Solidarity could see its mandate evaporate.

ROUND-THE-CLOCK DISCUSSIONS

So in September '89, even before they could enter their offices, the government team was pitched into a series of round-the-clock internal discussions, consultations with foreigners, and public appearances. The pace would not let up until they had hammered out the anti-inflation "stabilization plan" that would change the rules of Polish life.

The IMF and the World Bank participated intimately in negotiations with the government. Both had been working with the Poles for about three years, and they had to approve

the stabilization program if Poland was to get their money.

To halt inflation the plan called for internal convertibility of the currency, strict curbs on wage increases, the reduction of the budget deficit through elimination of price controls and subsidies, and a cutback of the credit supply. It called for negotiations to reschedule Poland's nearly \$40 billion debt to Western governments and commercial creditors.

The government team modified some IMF principles to meet political realities. The IMF favored a wage freeze, but the planners knew that wage freezes had been tried by the old regime—and so might be rejected by Solidarity. The planners compromised, permitting wage increases but taxing them after a certain level to discourage their use.

Sachs jetted in regularly to counsel officials, address the public, and talk to any audience that would listen—from economic commissioners to church parishioners. Lindenber



eagle. During a long, frank interview there one evening, he reflected on the past months.

In 1981-82 the Communist government had to call in tanks and riot police to impose a 20% drop in real income. Now, riding on the coattails of anti-Communist euphoria, the Solidarity government leaders had engineered an even more

severe decline in living standards, slicing real income by about one-third. So far, the people had stayed with them.

"It was a political decision," said Kawalec. "It was clear from the very beginning that we had to stop inflation as soon as possible. We were aware of the political risks and the economic hardship."

'SERIOUS COSTS'

With or without Sachs, the Polish experiment has thrown the country into deep recession. In a June speech Balcerowicz listed the "serious costs" of suppressing hyperinflation: (1) a 30% decline in industrial production that doubled or trebled the government's worst expectations—"the biggest problem," (2) a drop in people's real incomes, and (3) conspicuous unemployment.

In contrast to Polish officials who implemented the changes, Sachs is strikingly optimistic. He quibbles with these figures.

Grzegorz Kolodko, head of Poland's Institute of Finance, finds Sachs's disclaimer of a recession preposterous: "How can one claim everything is okay? We've paid a tremendous price in terms

of standard of living and were not able to get rid of inflation." Sociologist Joanna Sikorska, a veteran surveyor of living standards, concurs: "The lines are practically gone and more goods have appeared, but who can afford them? The 30% decline in real income reflects a startling decay in the quality of life."

arranged, and not just once, for Sachs to lobby skeptical Solidarity leaders.

Numerous delegations flowed in for two- or three-day visits. In December, during the most intense consultations over the stabilization plan, a large US mission headed by Labor Secretary Elizabeth Dole arrived. While faced with thrashing out the critical changes to come only several weeks later, the country's highest officials spent four days in fraternal meetings, explaining the fundamentals of Poland. Ministry of Finance official Stefan Kawalec confided, "It was a very nice visit, but we had had many such nice visits already."

FROM PRISON TO A LACQUERED DESK

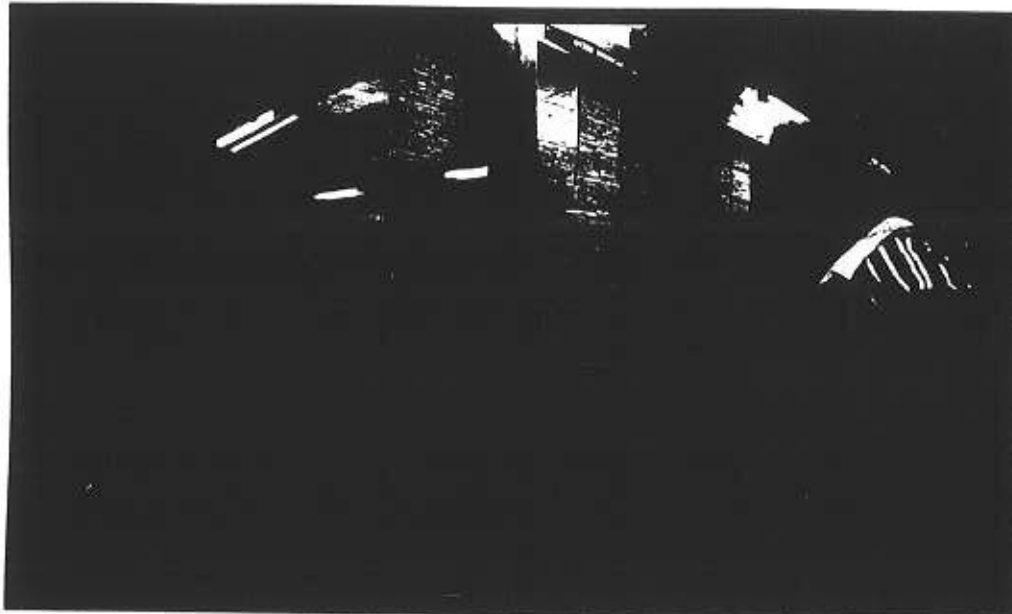
Mr. Kawalec, 36 years old, and not many years out of a martial-law prison cell, already had been working with Balcerowicz. Now, as general director of the Finance Ministry, Kawalec was intimately involved in nearly all critical economic decisions.

Wearing scruffy brown shoes, nylon socks, and an ill-fitting black suit, Kawalec spent most of his time behind a well-lacquered desk in an office with freshly painted white walls, red carpet, plush black sofa, and a tapestry of the Polish

Critics charge the Balcerowicz team has no clear vision for Poland's development or for how to spur production without redetonating inflation.

Sachs offered information on how the Latin American countries he was familiar with had responded to particular anti-inflationary policies, and this knowledge was appreciated by the Ministry of Finance. But ministry general director Kawalec said: "There were and still are many question marks—how the economy will respond. In this Sachs had no knowledge at all because he was not familiar with Communist economies. He tried to treat this economy the same as Latin American ones."

Experts on command economies of the kind long familiar in Eastern Europe doubt that Latin America, beyond curbing inflation, could provide a model for Poland. Poland lacks the financial institutions and market infrastructure to ensure that



workers get jobs and that goods are produced once inflation is contained.

Poland now is attempting to put its massive state-owned sector into unspecified private hands. Such economists as Sachs's Harvard colleague Janos Kornai offer Eastern Europeans cautionary words.

"Privatization requires time," says Professor Kornai. "It cannot be done by decree—'You, Mr. X, will be our Ford, and you, Mr. Y, will be our du Pont.' Balcerowicz cannot appoint a capitalist."

Social patience is exhaustible. Walesa says the Balcerowicz plan is "realistic, but under American conditions," and has lent his support to striking workers and farmers.

Ironically, many of the original constituents of Solidarity—the tens of thousands of workers who poured their energies into the movement in 1980-81 and sometimes risked their lives for it—may be the biggest losers in the Solidarity-inspired reforms of the 1990s. (See "Lech's Labors Lost?" WM, November '89.) Through two generations of Communist rule, Poles came to expect meat-and-potatoes socialist guarantees such as jobs, housing, and medical care.

With unemployment looming (and a shortage of the training programs, benefits, and housing that would make mobility possible) the Solidarity veterans who brought down the first Communist government in Eastern Europe may be the first to bring down the region's premier post-Communist government.

'I'M NOT A CHEERLEADER'

Sachs strongly identifies with the Polish reforms and remains firmly committed to them. But, in both the United States and Poland, Sachs is controversial not only for his economics but also for his promotional talent.

"Very seductive," said Solidarity economist and parliamentary representative Ryszard Bugaj, referring to Sachs's September 1989 televised address. Talking in a Solidarity office on the fourth floor of a department store, Bugaj compared Sachs to a faith healer and added: "I think Sachs perceived the general mood of his listeners very well, the nature of their emotions...He talked in such a smooth, confident manner that many responded as if they were hearing a revelation."

Sachs shrugs off the populist image: "I'm a technically trained economist. I'm not a cheerleader."

Appearing as much in Washington as in Warsaw during the fall of 1989, Sachs wooed US congressmen, calling for sharply higher funding for Poland than the amount originally proposed by President Bush.

"The chances for success of the new government, and for the continued peaceful transformation of Polish society," Sachs testified, "will be immeasurably enhanced by the rapid



provision of financial assistance by the Western governments."

Some government representatives, both American and Polish, praised Sachs as an independent adviser and intermediary. Others had reservations.

One was Krzysztof Krowacki, financial counselor at the Polish embassy, who, while conceding that Sachs is "quite influential and friendly to the economic program in Poland," observes that he "has frequently given the impression that he is speaking in the name of the Polish government, which is not quite so...Sometimes I get the idea that people think he has a contract with the government of Poland, which he doesn't."

But Sachs, with his Harvard credentials, American pizzazz, and not a little showmanship, made it easier for Polish officials to prepare their country psychologically, officials confide.

"Sachs didn't make any new discoveries here," Kawalec explains, "but he helped us in that he could make many people understand the obvious truths that they might not have understood otherwise...Sachs had a certain influence on public opinion."

THE JURY IS STILL OUT

Kawalec compares his experience over the past year with that of Sachs: "For me, it's a once in a lifetime adventure. But for Sachs it's one of many adventures...If the [economic experiment] doesn't succeed, there are many other places where he can be active."

Sachs says his motivation is not purely professional. "These were political heroes of mine, so I thought if there were any possibility of helping Solidarity further its cause, it would be something that would be wonderful to do...I thought anything I could do to help pursue freedom in Eastern Europe was an opportunity I shouldn't miss."

Sachs continues to make regular trips to Poland along with flights to other prospective client countries—Yugoslavia, Czechoslovakia, and the Soviet Union. Poland continues to search for a solution.

A year after he arrived in Poland, meeting Grzegorz Lindenberk and other activists, Sachs has fallen into the shadows. The Polish press has practically stopped covering him.

But during a few extraordinary months in Polish history—from Solidarity's landslide victory to its first term in office—if Sachs hadn't arrived, the country might have invented him.

"Last year we needed a person like this," says the gracious journalist Danuta Zagrodzka, who helped publicize Sachs a year ago by writing articles in Solidarity's *Gazeta Wyborcza*. "We were desperately looking for a program. He was the first person who had one—a simple one. Maybe all will end in failure. But we needed someone like this."

