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Reforms have caused plants closings and joblessness (cf: But some people learn to adjust to the marketplace)

BYLINE: Janine Wedel; Janine Wedel is an anthropologist, East European specialist, and a Fulbright scholar visiting Poland.

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Poles Try to Catch Up With Capitalism

IN the past 13 months, production in Poland's economy has fallen more than it did in the United States during the worst period of the Great Depression. Production declined more than 10 percent in January, and some officials estimate a further drop in production of 20 to 50 percent in February. Employers everywhere are being forced to fire workers. More than 100,000 people already are unemployed and Solidarity sources say as much as 10 to 20 percent of the labor force will lose their jobs this year.

When the new Solidarity-led government drew up its plan last year to reform the economy, it expected to phase out unproductive enterprises, like the huge shipyards and steel mills. But economists didn't expect that so many healthy factories, state-owned and private, would close down or cut back. As many as half of the businesses in some towns have shut down since economic reforms began in January.

Andrzej Krauzowicz, a private businessman, describes the situation as "tragic." He says that six weeks under the economic program of the Solidarity government have done more to ruin him than his previous seven years under the communists.

Mr. Krauzowicz manufactures drills, sandpaper, and other building tools, and seems to typify many of the solvent mom and pop industries that the communists allowed. Under the old system he faced a tax rate as high as 50 to 80 percent and a cumbersome bureaucracy. But he managed to survive, and over seven years built a staff of 15 people. Last week conditions got so bad he suspended operations and laid off his workers.

In better times, Krauzowicz invested in machinery that improved the efficiency of his operation and outstripped the competition. Now former competitors laugh at him because he is out of business too. They bought cars and homes with their profits, but his investment is lost.

Krauzowicz and others like him are folding because Poles now spend most of their money on food and other essentials. The government has removed many of the subsidies that people became accustomed to, and prices on such things as meat, sugar, and electricity have soared. Consumers saw their purchasing power drop by a whopping 40 percent in January alone. This is after purchasing power already had fallen more than 12 percent last year. In addition, in an attempt to dampen Poland's 800 percent annual inflation rate, the government recently froze wages.

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Many entrepreneurs face similar financial difficulties - they cannot afford the high cost of raw materials. Besides the fact that consumers and factories can't afford to buy goods, businessmen say three other things are causing their downfall: rising taxes, ever-changing tax policies that confuse and confound, and rising interest rates that make borrowing money prohibitive. The government introduced these harsh reforms to reduce hyperinflation and thus to meet the requirements of the International Monetary Fund and the World Bank. Poland desperately needs loans from these institutions to revive its impoverished economy. Yet critics argue that the cure may be worse than the current economic disease.

The deep recession is bad not only for business, but also for the Solidarity government, which counts on the private sector to employ people that state enterprises lay off. Businessman Krauzowicz, who's had to fire his employees and plans to sell machinery for scrap, says absorbing workers into the private sector won't be easy. Krauzowicz tells why: "It's easy to bust a business and lay off the workers you've spent months training. But it's almost impossible to rebuild from scratch later. In three or four months state firms will be bankrupt and people out of work. And the people won't have anywhere to go."

No one expected a boom when the government's anti-inflation program was implemented this January. But entrepreneur Krauzowicz, who had hoped to turn the firm over to his sons someday, said, "All I can do with the factory I invested my life savings in is to use it to play tennis."

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