F.T 26/5 p.3.

# Slave labour fund elicits slow response

By Haig Simonian in Berlin

Only about half the 1,000 largest companies in Germany have offered to contribute to the DM5bn (€2.6bn, $2.3bn) fund being created to compensate victims of Nazi-era forced and slave labour.

The difficulties in gaining pledges and wrangling over the wording of a document protecting German companies from US class-action suits has removed any chance of a formal signing ceremony to coincide with next week's visit to Berlin by President Bill Clinton.

Manfred Gentz, the finance director of Daimler-Chrysler and a leading industrialist behind the fund, said a final agreement would not come before mid-June. He said the differences between lawyers over the text allowing "legal closure" – protection against court action – might sound like hair-splitting to the layman but was crucial to German companies.

The halting pace of financial commitments has prompted the fund's founders – 17 of Germany's biggest businesses – to press for a change in the special legislation behind the fund to enable disbursements to victims to be made before the full DM5bn has been paid up.

Almost 2,300 companies have come forward so far, taking the total committed to DM3bn, said Mr Gentz at a news conference yesterday.

"We can say we're very happy to have gathered DM3bn. But the success of our actions is not yet satisfactory." He said the ranks of contributors had been swollen by firm pledges or indications of interest from banks and insurance companies.

"Banks and insurance companies didn't use any forced or slave labourers," said Bernd Fahrholz, chairman of Dresdner Bank.

"But we want to show our solidarity too." Mr Gentz declined to name any of the big companies still not supporting the fund but warned public exposure remained a possible sanction.

He noted that many public-sector companies had also dragged their feet, partly because they have argued they are covered by the government's separate DM5bn contribution.

# Investors learn to disregard Pole who cried wolf

The fêted finance minister's threats to quit no longer cause panic, writes **John Reed**

When Leszek Balcerowicz, Poland's finance minister, threatened to resign last November, local stocks plunged and the zloty slipped 5 per cent against the dollar as London bank analysts sounded the death knell for Polish economic reforms.

But this week, when Mr Balcerowicz's Freedom Union party warned that it might quit Poland's centre-right coalition, led by the Solidarity bloc, the markets barely took notice.

The crisis follows months of growing tension in the coalition, and portfolio investors, weary of Warsaw's coalition dramas, may not be taking the threat of a walk-out seriously yet.

But the muted reaction suggests another possibility: that Mr Balcerowicz, the father of Poland's post-communist reforms, is no longer indispensable to the country's economic success.

The donnish finance minister has already earned his place in history for rescuing central Europe's largest economy from hyperinflation during his first stint in office, in 1989-91. On returning to office two and a half years ago, he set about finishing the job by launching sweeping reforms of Poland's pensions system, healthcare, education and administration.

But were Mr Balcerowicz to leave office tomorrow he would bequeath a mixed legacy. Slow to reduce inflation, Poland trails the rest of the top group of prospective European Union members on most Maastricht monetary convergence criteria. Poland's current-account deficit surpassed 8 per cent of gross domestic product in the first quarter of this year, a number that elsewhere would send most emerging-market investors fleeing.

Foreigners remain willing to hold Polish stocks and bonds because privatisation revenues this year will cover much of the deficit. As the last big privatisations wind down in the next two years, however, that willingness could fade unless Poland makes an effort to tackle its external imbalance.

It would be as absurd to blame Mr Balcerowicz for all that ails Poland's economy as it is to credit him with all its successes. One of the main reasons his party is threatening to leave the coalition is its fears that "pork barrel" legislation proposed by mavericks in the Solidarity bloc will undermine plans for a belt-tightening 2001 budget.

Leszek Balcerowicz: the father of Poland's post-communist reforms looks indispensable no more AP

Yet some observers worry that the finance minister's confrontational style may not be what Poland needs now. Ten years ago Mr Balcerowicz's tank-like demeanor and lectures on the virtues of the free market *were* precisely what Poland needed. Then, the country was in international default and needed to fix its economy with little external help, and the government was able to tap a wellspring of public support for change. By co[...] the current government [...]pinion-poll ratings are dismal. With the public mood fickle and relations within the coalition tense, Mr Balcerowicz's penchant for confrontation is not playing well.

"It's detrimental to have this perennial risk of the government falling apart at any moment," says Kasper Bartholdy, chief economist for eastern Europe with CS First Boston in London. "Political upheaval is always related to Balcerowicz, and that's not healthy."

He says he admires Mr Balcerowicz's record but does not fear the prospect of elections being called before autumn next year because they might result in more stable government.

A new election would be called if the Freedom Union made good its threat and a minority Solidarity government were unable to survive. It would probably result in victory for the ex-communist Democratic Left Alliance, which might then seek a coalition with the Freedom Union.

The Democratic Left's shadow finance minister, Marek Belka, is considered a pragmatist who lacks Mr Balcerowicz's free-market purism but would almost certainly pursue budget-cutting and continue public-sector reforms.

The Freedom Union's withdrawal from government might deal a blow to Poland's finances and its EU accession drive. Along with Mr Balcerowicz, Bronislaw Geremek, the foreign minister, would leave, disrupting the delicate accession effort. Were the Solidarity bloc to limp on alone, the unruly alliance might go on an expansionist spending spree.

Still, some Poles find the pitch of foreign comments on Mr Balcerowicz's importance shrill. "I don't think Balcerowicz is irreplaceable," says Karol Modzelewski, a politics lecturer at Warsaw University. "The economy has worked without him before and will continue working without him."

See Editorial Comment

EUROPEAN INTERNAL MARKET

# Prodi fails to close gap with German states

By Haig Simonian

A meeting between Romano Prodi, the European Commission president, and the premiers of Germany's 16 federal states yesterday failed to narrow profound divisions on jurisdictions in the internal market.

The state premiers, led by Edmund Stoiber of Bavaria, threatened to block ratification of any treaties paving the way for eastern enlargement if their demands for guarantees on their responsibilities were not met.

Germany's states have more leverage than their European equivalents. Under the constitution, legislation has to be approved by the Bundesrat, the upper chamber of parliament, where the states are represented.

In an attempt to conciliate, Mr Prodi stressed that he respected the concern of the states that their jurisdiction for key aspects of policy-making, such as public services, enshrined in German law, should be respected in EU legislation.

However, he stressed that the internal market and the Commission's responsibility for policing competition policy would lead to inevitable overlaps, in which EU rules would have to prevail.

"We must find a way in which services can continue to be provided, without their financing having an unreasonably big distortion on the internal market or on competition," noted Mr Prodi.

"If there is no distortion of competition we won't intervene on that," he said.

"We have to be very, very vigilant."

Henning Scherf, the leader of the city state of Bremen, stressed that Germany's federal tradition and cultural heritage created potential clashes between practice and [...] rules. "It's not just a [...]er of economic issues [...]ocial ones too," he said. Any decisions on competences had to be made before enlargement. "We must clear up these issues now."

Pointing to the scope for compromise, Mr Prodi suggested criteria could be devised to define when an issue transcended a state government's responsibility because of its implications for the internal market.

Surprisingly, however, he noted that the case of Westdeutsche Landesbank, the big public-sector bank being taken to court by the Commission on competition grounds, had not been discussed yesterday. Separately, German officials said they were optimistic of an imminent out-of-court settlement of the case.

**The premiers threaten to block treaties paving the way for EU enlargement if their demands for guarantees are not met**

Government officials also stressed that Berlin was looking at ways in which the states' concerns could be addressed without requiring any treaty amendments. Such methods could include directives or guidelines, an official said.

Although it was not clear whether state governments would accept such a solution, observers noted that the states were, ultimately, not so much at loggerheads with the Commission as with those EU members less willing to accommodate their views.

Personal View, see Comment & Analysis