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2004-0967-F; 2005-1003-F; 2009-0857-F; S

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Record Group/Collection: George H.W. Bush Presidential Records
Collection/Office of Origin: National Security Council
Series: H-Files
Subseries: NSC Meetings Files

OA/ID Number: 90001
Folder ID Number: 90001-018

Folder Title:
NSC0030 - October 03, 1989 - Poland, Economic Assistance

Stack:	Row:	Section:	Shelf:	Position:
V	0	0	0	0

Withdrawal/Redaction Sheet
(George Bush Library)

Doc. No. / Type	Subject/Title	Date	Restriction	Classification
01a. Memo	Brent Scowcroft to POTUS, Re: NSC Meeting on New Assistance for Poland. (3 pp.)	10/03/89	(b)(1)	S
01b. Talking Points	Points to Be Made in the NSC Meeting on New Assistance to Poland. (1 pp.)	n.d.	(b)(1)	S
01c. Paper	Poland's Economic Plight: An Evaluation of the Proposed Reform Program and Possible U.S. Assistance Measures. (7 pp.)	n.d.	(b)(1)	S
01d. Talking Points	Talking Points for Brent Scowcroft for NSC Meeting. (4 pp.)	n.d.	(b)(1)	S
01e. Talking Points	Notecard, Re: Points to Be Made for NSC Meeting on New Assistance for Poland. (1 pp.)	n.d.	(b)(1)	S
02a. Memo	G. Philip Hughes to J. Stapleton Roy, et al., Re: Poland. (2 pp.)	10/03/89	(b)(1)	S
02b. Paper	Poland's Economic Plight: An Evaluation of the Proposed Reform Program and Possible U.S. Assistance Measures. (7 pp.)	n.d.	(b)(1)	S
02c. Letter	Message from President Bush to President Mitterrand, Re: Events in Poland. (2 pp.)	n.d.	(b)(1)	S
02d. Letter	Message from President Bush to Chancellor Kohl, Re: Events in Poland. (2 pp.)	n.d.	(b)(1)	S

Collection:

Record Group: Bush Presidential Records
Office: National Security Council
Series: H-Files
Subseries: NSC Meetings Files
WHORM Cat.:
File Location: NSC0030 - October 03, 1989 - Poland, Economic Assistance

Pinksheet Number: RML4988
OA/ID Number: 90001-018
Date Closed: 9/11/2009
FOIA/Sys Case #: 2004-0967-F
Re-review Case #:
P-2/P-5 Review Case #:

Withdrawal/Redaction Sheet
(George Bush Library)

Doc. No. / Type	Subject/Title	Date	Restriction	Classification
02e. Letter	Message from President Bush to Prime Minister Andreotti, Re: Events in Poland. (2 pp.)	n.d.	(b)(1)	S
02f. Letter	Message from President Bush to Prime Minister Mulroney, Re: Events in Poland. (2 pp.)	n.d.	(b)(1)	S
02g. Letter	Message from President Bush to Prime Minister Kaifu, Re: Events in Poland. (2 pp.)	n.d.	(b)(1)	S
02h. Letter	Message from President Bush to EC [European Community] Commission President Delors, Re: Events in Poland [FOIA restrictions redacted] (2 pp.)	n.d.	(b)(1)	S
02i. Letter	Message from President Bush to Prime Minister Thatcher, Re: Events in Poland. (3 pp.)	n.d.	(b)(1)	S
02j. Letter	POTUS to President Jaruzelski, Re: Events in Poland. (2 pp.)	n.d.	(b)(1)	S
02k. Letter	POTUS to Prime Minister Mazowiecki, Re: Events in Poland. (2 pp.)	n.d.	(b)(1)	S
03. Paper	Poland's Economic Plight: An Evaluation of the Proposed Reform Program and Possible U.S. Assistance Measures. (7 pp.)	n.d.	(b)(1)	S
04a. Memo	Brent Scowcroft to POTUS, Re: NSC Meeting on New Assistance for Poland. (3 pp.)	n.d.	(b)(1)	S

Collection:

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04b. Memo	Brent Scowcroft to POTUS, Re: NSC Meeting on New Assistance for Poland. (3 pp.)	n.d.	(b)(1)	S
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04d. Talking Point	Points to Be Made in the NSC Meeting on New Assistance to Poland. (1 pp.)	n.d.	(b)(1)	S
04e. Talking Points	Talking Points for Brent Scowcroft for NSC Meeting. (4 pp.)	n.d.	(b)(1)	S

Collection:

Record Group: Bush Presidential Records
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FOIA/Sys Case #: 2004-0967-F
Re-review Case #:
P-2/P-5 Review Case #:

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NSC/S PROFILE

RECORD ID: 8921212
RECEIVED: 03 OCT 89 12

TO: PRESIDENT

FROM: SCOWCROFT

DOC DATE: 03 OCT 89
SOURCE REF:

KEYWORDS: POLAND
NSC

ECONOMIC ASSISTANCE

PERSONS:

SUBJECT: PRES MTG TALKER FOR NSC MTG ON 3 OCT RE ECONOMIC ASSISTANCE / POLAND

ACTION: NOTED BY PRES DUE DATE: 13 MAR 90 STATUS: C

STAFF OFFICER: RICE LOGREF: 8921211

FILES: IFM O NSCP: NS0030 CODES:

D O C U M E N T D I S T R I B U T I O N

FOR ACTION FOR CONCURRENCE FOR INFO

DECLASSIFIED
White House Guidelines
E.O. 12958, SEC 3.4 (B) September 11, 2006
By [illegible] NARA, Date 9/11/09

COMMENTS: _____

DISPATCHED BY _____ DATE _____ BY HAND W/ATTCH

OPENED BY: AC CLOSED BY: AC DOC 2 OF 2

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ACTION DATA SUMMARY REPORT

DOC	ACTION OFFICER	CAO	ASSIGNED	ACTION REQUIRED
001	SCOWCROFT	Z	89100310	FOR SIGNATURE
001		X	89100312	NOTED BY SCOWCROFT W/ COMMENT
002		X	89100312	GATES SGD MEMO
002		Z	89100315	FWD TO PRES FOR INFORMATION
002	PRESIDENT	X	89100408	NOTED BY PRES

DECLASSIFIED
White House Guidelines
E.O. 12958, SEC 3.4 (B) September 11, 2006
By [illegible] NARA, Date 09/01/09

National Security Council
The White House

PROOFED BY: _____ LOG # 21212

URGENT NOT PROOFED: _____ SYSTEM PRS (NSC) INT

BYPASSED WW DESK: _____ DOCLOG _____ A/O _____

	SEQUENCE TO	HAS SEEN	DISPOSITION
Dep Exec			
Philip Hughes			
Bob Gates			
Brent Scowcroft			
Philip Hughes			
Situation Room			
West Wing Desk	1		N
NSC Secretariat	2	LMS 4/23	R

A = Action I = Information D = Dispatch R = Retain N = No further Action

cc: VP Sununu Other _____

Should be seen by: _____
(Date/Time)

COMMENTS

89 OCT 4 A8:51

THE WHITE HOUSE
WASHINGTON

Mr. President:

You will get all you need for this NSC meeting if you begin reading at the arrow on page 2.

Bob Gates

THE PRESIDENT HAS SEEN

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PER E.O. 13526
2011-1420-MR
12/9/2013 MM

THE WHITE HOUSE
WASHINGTON

1989 OCT -3 PM 12:59

October 3, 1989

THE PRESIDENT HAS SEEN
10/03/89

ACTION

MEMORANDUM FOR THE PRESIDENT

FROM: BRENT SCOWCROFT BS/gw

SUBJECT: NSC Meeting on New Assistance for Poland

Purpose

To review a potential package of new assistance to Poland in response to the request of the new Mazowiecki government for aid.

Background

In addition to your meeting in New York with the Polish Foreign Minister, the Administration held extensive talks with the Polish Finance Minister last week and presented an outline for economic reform. The Poles now appear ready to implement a strict program of economic reform and intend to conclude negotiations with the IMF by the end of the year. They have asked the West to establish a $1 billion fund for economic stabilization -- available at the time that they implement reforms. Poland will request an additional $700 million from the IMF.

Poland has reached a critical stage in its process of economic and political reform. The Polish economic leadership has decided that they must institute radical, shock-treatment reforms now, during the Mazowiecki government's political honeymoon with the Polish population. The economic reform outline that Balcerowicz presented calls for immediate currency devaluation and rolling back wage-price indexation at the same time that price subsidies end. This radical free-market approach carries the danger of spiralling inflation (the current annual rate is already estimated to be in hundreds of percentage points) and a precipitous drop in the standard of living. This, in turn, increases the potential for massive strikes and labor unrest.

Clearly, the Poles calculate that a more gradual approach to economic reform, while less dangerous politically, will not get the job done and may be scaled back through a political process of bargaining with Solidarity's more radical wing. Already, the Balcerowicz plan has been criticized in Warsaw as too extreme and Lech Walesa -- trying to avoid a break with Solidarity's radicals -- has said that the plan could set up the conditions for civil war. The Balcerowicz plan is a crucial test for the political

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cc: Vice President
Chief of Staff

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consensus in Poland on the appropriate course for economic reform.

Balcerowicz has made a Western-backed stabilization fund a key element of his plan, saying that it will provide the incentive that Poland needs to accept IMF conditionality and the attendant program of radical reform. We have said repeatedly, as have our allies, that the West is prepared to assist the Poles when they demonstrate their willingness to accept tough and painful reforms. The Balcerowicz plan suggests that they are ready to do so.

The timing of our new assistance for Poland is driven by political pressure on the Hill as well. As you know Paul Simon has introduced a bill which would allocate $400 million per year over 3 years for the Enterprise Fund which we created. The Simon bill has two flaws from our point of view: the money would go into the Enterprise Fund which is for long-term economic development and does not respond to the Polish request for immediate stabilization assistance; and the money is to be taken from the R&D accounts of SDI. The House has been working on a more bipartisan basis and will introduce, probably today, a modified Simon bill which allocates far less money for the Enterprise Funds but still more than the Administration requested. This bill does not address the near-term Polish request either. We have had discussions Senate Republicans who are anxious to see the Administration regain the initiative and are prepared to introduce substitute legislation.

→ This NSC meeting will review a new package of assistance structured to try and meet both the needs of the Poles and the immediate political demands of the Hill. The package has two elements: a $200 million grant which would be the U.S. contribution to the West's $1 billion stabilization fund; and creation of a Presidential Experts' mission to formulate a program for the economic recovery of Poland. The new money would be available contingent upon:

(1) An agreement between Poland and the IMF, which the Polish government expects to conclude within three months,

(2) Recommendations of the Presidential Experts' Mission which would be dispatched to Poland within the next few weeks, and which would develop a plan for the specific uses of the $200 million, and

(3) The commitment of the "Group of 24" to provide the remaining $800 million, since the full amount is needed to make the stabilization fund concept effective. You would send letters to the G-7 asking them to contribute to the $1 billion stabilization fund. No U.S.

resources would be disbursed from this stabilization fund until the experts' mission had reported to the President and we had coordinated use of the money with both the Polish government and the G-24.

The Presidential Mission of economic and technical experts would also coordinate with experts from the G-24, and formulate a detailed program for the development of key sectors of the Polish economy, with specific timetables and goals, which will identify more precisely technical assistance priorities and investment opportunities.

Finally, there is the issue of whether there should be a U.S. government coordinator for assistance to Poland and Hungary. This senior official from in or outside the government would be responsible for the coherence of our assistance program.

RECOMMENDATION

That you review the package at Tab A.

Attachments
Tab A Talking Points
Tab B Concept Paper
Tab C List of Participants

SECRET

POINTS TO BE MADE IN THE NSC MEETING
ON NEW ASSISTANCE TO POLAND

-- Events in Poland have moved faster than any of us would have guessed.

-- I am interested in hearing what we might be able to do to support the new Mazowiecki Government.

-- I would like to ask Brent to lead our discussion of a potential new economic assistance package for Poland.

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Poland's Economic Plight: An Evaluation of the Proposed Reform Program and Possible U.S. Assistance Measures

Political and Economic Situation in Poland

The establishment of the first noncommunist government in Poland is truly historic. Prime Minister Mazowiecki has a chance to gain the public trust that is needed for the difficult economic steps ahead, but the honeymoon is undoubtedly of limited duration. The public is weary of chronic economic distress and the standard of living is actually lower today than 10 years ago. Any further significant decline in the economic well-being of the population would likely bring labor unrest and demands that could strangle incipient economic reforms. Mazowiecki's government is walking a treacherous path between hard-line communists who count on unrest to provide a pretext for a crackdown and radical workers who are determined to maintain the welfare state at whatever cost.

Economic reform will require a substantial overhaul of the government's management of the economy. The new Solidarity-led government must rein in inflation and secure worker tolerance, if not support, for tough measures that will affect them adversely. At a minimum, this will mean budgetary and enterprise financial discipline and replacement of Communist party-affiliated plant managers and economic officials, who lack managerial or technical expertise. In addition, the government must introduce incentives into the system, including encouragement of private enterprises; educate the public on the need for reform; and quickly get and maintain consensus within the government on the recently announced economic reform program.

Poland's Reform Program and the Requested Foreign Assistance

The reform program outlined by the new Finance Minister in meetings with senior U.S. officials calls for radical surgery. The plan envisions sharp reductions in the budget deficit, monetary growth and domestic credit; removal of price controls; devaluation of the zloty and movement toward convertibility; and policies designed to hold wage growth below inflation. Over the medium-term the government plans to eliminate restrictions on private sector activity; privatize large sectors of the state enterprise sector; reform the tax system; and create a stock exchange and private banks with foreign participation encouraged.

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To carry out the program, the Poles have requested foreign economic assistance in addition to an IMF program which the Poles hope to conclude toward year's end. The Poles want Western governments to: (a) provide $490 million in grants to cover a fourth quarter cash shortfall for 1989; (b) extend $1 billion in stabilization or stand-by loans in 1990; and (c) offer at least a three-year moratorium on official debt repayments.

Assessment of the Plan and Requested Assistance

The Polish economic situation is extremely complex and unique, involving both the problems of run away inflation and the difficulties of restructuring a nonmarket economy. Not only is the overall price level rising dramatically, requiring an economic stabilization program, but there is no recent history of appropriate relative prices. This necessitates a far-reaching structural adjustment plan. Relative prices will be critical, for example, in determining where to allocate investment.

Structural adjustment, involving the transition to a market economy, cannot take place in the midst of hyperinflation, so macroeconomic stabilization is a prerequisite for success of subsequent measures. The Polish stabilization plan is radical, but this is not unusual for a stabilization plan. While further details will need to be specified, the basic elements seem quite sensible.

There is concern that a radical stabilization will result in large (30 percent) reduction in real wages as wage indexation is removed and prices jump following a devaluation and further removal of price controls. The available data, which suggest that real wages have risen by more than 30 percent over the past year, are likely to overstate the current real wage level. Especially in urban areas, there are severe shortages of many goods. Stabilization and improvement in distribution could help urban workers, even if it resulted in a large measured real wage cut.

The Polish Plan calls for three types of foreign assistance:

(1) The requested $490 million would come in advance of an IMF stand-by and would need to be available in December. The Poles have arrived at the figure in the following way: They estimate that their fourth quarter cash shortfall will total $880 million. They are requesting $490 million to cover principal and interest due on unsecured debt and for imports of basic goods, including grain and pharmaceuticals. The remaining $390 would be covered by already announced

Western food assistance and deferral of interest payments on their London Club debt (commercial debt).

(2) The Poles want a $1 billion fund for currency stabilization. The money would have to be available in the January-March time-frame and would come after an IMF stand-by was negotiated. The fund might substantially improve the likelihood of successful economic stabilization. The amount is not excessive. A smaller amount will be less effective.

A currency stabilization fund would function primarily to strengthen the credibility of the authorities in implementing the comprehensive macroeconomic stabilization program. Such a program is designed to restore stability in the face of extreme inflationary pressures and a balance of payments crisis. The $1 billion lends credibility to the authorities' commitment to stable prices and a stable currency by enabling them to defend against speculative attacks. The very fact of a G-7 backed fund would build faith in the zloty. This may be a critical factor in the success of macroeconomic stabilization. For instance, the successful Israeli stabilization of 1985 included a U.S. currency stabilization loan of $1.5 billion over 2 years.

The money could be extended as loan or grant. Grants would probably be more effective since the West would then not add to Poland's heavy indebtedness. If the funds were not needed (if there were no run on the zloty), the grants could be used to augment the Enterprise Fund. This approach might also silence critics in Congress -- led by Paul Simon -- who wish to enhance the Enterprise Fund by $300 million per year over three years. We do, however, have the option of using loans for the stabilization fund.

The $1 billion figure for Poland represents the equivalent of about 2 months of Polish convertible currency imports. The size of the proposed fund relative to GDP is substantially smaller than the Israeli stabilization loan. The proposed loan to Poland is about 3.3 percent of GDP, while the loan to Israel was roughly 7.5 percent of GDP.

(3) The Polish Plan also calls for at least a 3-year moratorium on official debt repayments. The rationale is that Poland will require "time out" from transferring resources abroad so as to begin restructuring the economy. The resources can be used for investment domestically. A "time out" is likely to be an important component of getting the Polish economy on its feet. The United States has already indicated willingness to support early and generous

treatment of Polish debts in the Paris Club in advance of an IMF agreement.

The United States and other countries already have proposed a wide range of short term and longer term measures. However, many measures, for example, to encourage private investment, are unlikely to be successful without macroeconomic stabilization. Medium and longer-term measures should be supported and encouraged. As the Polish Plan recognizes, the first steps should focus on a well formulated macroeconomic stabilization program.

The U.S. Response

We need to act quickly to regain the initiative. The announcement by the President of expanded U.S. assistance would give the Poles hope and underscore our confidence in the new Polish government as it embarks on the painful path of economic reform. The House Foreign Affairs Committee intends to act Wednesday on both the Administration's pending Polish legislation and on a modified Simon-Cranston bill. If we do not counter with an effective legislative package of our own, the likely result will be adoption of a modified version of the Simon bill. Simon's bill has already been reported out of Senate Foreign Relations and is ready to go to the Senate floor. The following measures could constitute the U.S. response:

1. $200 Million Grant for Economic Stabilization

In response to Poland's request for a $1 billion stabilization fund the United States could offer $200 million in grants to promote longer-term economic growth in Poland. Such grants would be contingent upon Poland reaching agreement with the IMF, our Economic Summit partners joining us in reaching the $1 billion target for the fund, and the recommendation of the President's mission (see below). No U.S. resources would be disbursed from this stabilization fund until the experts' mission had reported to the President and we had coordinated use of the money with both the Polish Government and the G-24. One potential use of the fund would be to bolster Polish foreign currency reserves (balance of payments support) and provide a cushion against a collapse of the zloty. The advantages of such a grant are:

-- It responds to Poland's specific requests.
-- It would provide immediate economic support to the new Solidarity-led government as it attempts to implement economic reforms.

-- It would allow the Administration to regain the initiative from Congressional critics who favor more costly, but less focused aid measures.

The $490 million request is more problematic because the funds are required in advance of an IMF stand-by and cuts against our insistence on conditionality. The request might be handled through some combination of private sector contributions of funds for imports and public encouragement of commercial debt rescheduling.

2. Presidential Mission

In addition to the $200 million grant for stabilization purposes, the President could dispatch a high-level mission to Poland. Such a Presidential Mission would have both symbolic and substantive objectives. It would symbolize an enhanced U.S. commitment to assist Poland in the most effective way possible and demonstrate the President's continuing personal involvement. Substantively, its mandate would be to:

-- Contact economic leaders in the private and public sectors and further relationships already established by the visits of Secretary Mosbacher and the Agriculture Department to Poland;
-- Establish the cooperative framework for channeling U.S. expertise, public and private, into the sectors where it is needed most and likely to be most productive.
-- Coordinate this activity with the Polish stabilization program.
-- Establish mechanisms and organizational arrangements to facilitate the gathering of reliable data from which priorities for the sectors key to Poland's economic growth established and specific opportunities for technical assistance and investment of private capital can be identified;
-- Recommend a follow-through program with specific timelines and goals under which the appropriate experts will develop necessary data and identify specific technical assistance needs and investment opportunities.
-- Offer recommendations on how the $200 million provided by the U.S. as part of the stabilization funds might be spent most effectively.

The Mission would report to the President who would then brief Congress and selected world leaders and make his recommendations. It would also share its findings with the 24-nation Concerted Action Group. Either at the time of his statement outlining the new package or at the time that the

mission reports to him the President could announce that he is naming a senior level U.S. Coordinator for Poland to coordinate follow-on activities. The Coordinator would be responsible for coordinating U.S. public and private sector efforts and be the main contact with Poland and other countries, relevant international organizations, the Congress, and the media.

The $200 million stabilization grant and the Presidential Mission focus on different issues, but they are actually closely interrelated. It is essential that the United States response be cast in a coordinated economy-wide perspective. The $200 million grant would provide for stability of prices which is essential if economic reforms at the micro level are to be successful. The important initiatives resulting from Secretary Mosbacher's mission -- new cooperative frameworks, private sector agreements, and follow-up investment missions -- which will be developed as part of the Presidential Mission will have a lasting impact only if overall economic stability is achieved. Moreover, reductions in real wages and changes in relative prices, which are likely to result from the indexation reforms and the stabilization effort, have important implications for how firm-specific or sector-specific cooperation might best take place. Experiences with market reforms in China and Chile in recent years suggest the potential for failure if the individual reforms are not coordinated and sequenced in a proper fashion.

Expertise provided by the proposed U.S. Coordinator and coming from his team on the ground in Poland would eventually provide for a proper integration of all parts of the program. But in the meantime, it is essential that the Presidential Mission focus on how macroeconomic stabilization efforts and likely relative price changes interact with the many promising individual initiatives that will result form the Mission.

In developing this program for U.S. assistance to Poland, we should not draw attention away from Hungary. Poland has reached a new stage of reform with the selection of a non-communist government, but Hungary is also in the midst of fundamental political and economic change. Multiparty elections will likely be held next year, and the Hungarians have long had the most market-oriented economy in Eastern Europe. We need to take account too of the Hungarian's recent decision to allow East German refugees to emigrate to the FRG -- a decision that strained Hungarian relations with its conservative Warsaw Pact allies. Hungary's economic problems are not as severe as Poland's and the difficulties are of a different character. Effective aid to Hungary may rest heavily on technical assistance and private investment -- though debt restructuring may be necessary at some point too. The Hungarians have already

developed an economic reform plan, and we should be prepared to respond after the elections next year.

Allied coordination is a key element of an effective Western assistance program for Poland and Hungary. In reasserting U.S. leadership we must be careful that our initiatives are cast not as "made in America" but as our contribution to the Western effort. The President sponsored the concept of concerted action at the Paris Summit and endorsed the G-24 meetings. The U.S. must not be seen as backing away from a concerted effort. When the President decides on our new package, he should send letters to his counterparts describing our new initiative and asking that they contribute to the $1 billion fund. We might also instruct U.S. ambassadors in allied capitals to reiterate the need for Western support of a Paris Club rescheduling and other elements of the President's extant program.

The President could make an announcement of the new package early this week. At that time, the President might also issue invitations to President Jaruzelski and Prime Minister Mazowiecki to visit the United States.

PARTICIPANTS

The President
The Vice President
James A. Baker, Secretary of State
Nicholas Brady, Secretary of Treasury
Dick Cheney, Secretary of Defense
Clayton Yeutter, Secretary of Agriculture
Robert Mosbacher, Secretary of Commerce
Elizabeth Dole, Secretary of Labor
Richard Darman, Director of the Office of Management and Budget
Carla Hills, United States Trade Representative
John H. Sununu, Chief of Staff
Brent Scowcroft, Assistant to the President for National Security Affairs
William Webster, Director of Central Intelligence
Michael Boskin, Chairman of the Council of Economic Advisors
General Colin L. Powell, Chairman, Joint Chiefs of Staff
Mark Edelman, Administrator, Agency for International Development
Robert M. Gates, Assistant to the President and Deputy for National Security Affairs
Robert M. Blackwill, Senior Director, European and Soviet Affairs, NSC Staff

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TALKING POINTS FOR BRENT SCOWCROFT FOR NSC MEETING

-- This is a critical phase in Poland's economic and political reform process.

-- I do not think any of us disagree about the historic significance of the formation for the first non-communist government in Eastern Europe in the post-war period.

-- Poland has been the strategic linchpin in Soviet military and political domination of Eastern Europe.

-- The President has pledged U.S. support to the Polish reform process but we have said that Poland has to agree to tough and painful economic reform measures.

-- We now have an outline of the Polish economic reform plan, which while many details still need to be worked out, takes Poland in the direction of rapid, even radical, free-market reforms.

-- The Poles have decided to take the shock up front. The economic leadership has decided to use the political honeymoon of the Mazowiecki government with the Polish population to institute tough economic reforms.

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12/9/2013 MM

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-- The radical free-market approach has dangers, including further fueling of inflation and a precipitous drop in the standard of living.

-- Already more radical elements of Solidarity and even Lech Walesa have criticized the plan as too extreme.

-- Balcerowicz has made Western assistance a key to his plan, expecting it to provide an incentive for Poland to accept conditionality.

-- The Poles have requested a $1 billion stabilization fund from the West. They want the money to be available at the time that they sign an IMF agreement and institute the reforms. This should be thought of as assistance to help them through the shock of the first stages of macroeconomic reform.

-- Our first measure would respond directly to this request. The President would announce new U.S. assistance in the amount of a $200 million grant as the American contribution to the $1 billion Western stabilization fund.

-- The assistance would be conditional on:

-- Poland and the IMF reach agreement on a Fund program.

IMF 700
World Bank 900 mil over 2 fiscal yrs
—more perhaps

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-- Recommendations of the Presidential Experts' Mission for use of the $200 million had been made known to the President.

-- The G-24 agrees to provide the remaining $800 million.

-- No U.S. resources would be disbursed from this stabilization fund until the experts' mission had reported to the President and we had coordinated use of the money with both the Polish government and the G-24.

-- Second, we could dispatch a Presidential experts' mission to Poland which would coordinate with experts from the G-24 to formulate a detailed program for economic recovery in Poland.

-- The mission would, as noted above, also recommend specific uses of the $200 million stabilization money.

-- Third, the U.S.G. might appoint a coordinator who would be responsible for ensuring coherence of our assistance program.

-- There is also pressure on the Hill to do more for Poland. I have been up on the Hill to talk with Senate Republicans and, yesterday, with a bipartisan House group.

-- The Simon bill on the Senate side would put more money into the enterprise fund which is for long-term economic

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development -- and would not be responsive to the Polish request for near-term stabilization assistance.

-- Simon also takes the money out of SDI R&D funds.

-- The House version of the bill cuts down Simon's $400 million over three years -- but is still more money than we want to allocate and does not respond to the Polish request either.

-- There is no conditionality in either the Simon or House bills.

-- Senate Republicans are anxious to see the Administration re-take the initiative.

- Who heads econ + tech group
- Where $200 mil comes from
- Who should be our aid coordinator

announced at 12:30 if Pres. will be seen as responding to pressure.

490 mil short term

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PARTICIPANTS

The President
The Vice President
James A. Baker, Secretary of State
John H. Sununu, Chief of Staff
Brent Scowcroft,
Assistant to the President for National Security Affairs
Robert M. Gates,
Assistant to the President and Deputy for National Security Affairs
Nicholas Brady, Secretary of Treasury
Dick Cheney, Secretary of Defense
Clayton Yeuter, Secretary of Agriculture
Robert Mosbacher, Secretary of Commerce
Elizabeth Dole, Secretary of Labor
Richard Darman, Director, Office of Management and Budget
Ambassador Carla Hill, United States Trade Representative
Michael Boskin, Secretary, Council of Economic Advisors
General Colin Powell, Chairman, Joint Chiefs of Staff
Mark Edelman, Agency for International Development
Richard Kerr, Central Intelligence Agency
Robert D. Blackwill, NSC Notetaker

~~SECRET~~ SECRET CARD 1 OF 1

POINTS TO BE MADE FOR
NSC MEETING ON NEW ASSISTANCE TO POLAND

-- EVENTS IN POLAND HAVE MOVED FASTER THAN ANY OF US WOULD HAVE GUESSED.

-- I AM INTERESTED IN HEARING WHAT WE MIGHT BE ABLE TO DO TO SUPPORT THE NEW MAZOWIECKI GOVERNMENT.

-- I WOULD LIKE TO ASK BRENT TO LEAD OUR DISCUSSION OF A POTENTIAL NEW ECONOMIC ASSISTANCE PACKAGE FOR POLAND.

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2011-1420-NSC
12/9/2013 JMM

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NSC/S PROFILE

RECORD ID: 8921211
RECEIVED: 03 OCT 89 12

TO: AGENCIES

FROM: HUGHES

DOC DATE: 03 OCT 89
SOURCE REF:

KEYWORDS: POLAND
PUBLIC STATEMENTS
ECONOMIC ASSISTANCE
NSC

PERSONS:

SUBJECT: POLAND CONCEPT PAPER / PRES LTRS TO G-7 LEADERS / PRESS OFC STATEMENT FOR 3 OCT NSC MTG

ACTION: HUGHES SGD MEMO TO AGENCIES DUE DATE: 28 APR 90 STATUS: C

STAFF OFFICER: HUGHES LOGREF: 8921212

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By NARA, Date 09/14/09

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ACTION DATA SUMMARY REPORT

DOC	ACTION OFFICER	CAO	ASSIGNED	ACTION REQUIRED
001		X	89100312	HUGHES SGD MEMO TO AGENCIES

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THE SECRETARY OF THE INTERIOR 18th & E. Street N.W., Room 6151				
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THE SECRETARY OF HHS 200 Independence Avenue, NW, Room 615F				
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UNITED STATES TRADE REPRESENTATIVE Room 209 Winder Bldg. 17 & F St. NW	1	10-3	12:04	Louis Wood
THE DIRECTOR, FEMA 1500 C Street, Room 828				
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THE SECRETARY OF TRANSPORTATION 400 7th Street S.W.				
MANAGER, NATL COMMUNICATIONS SYSTEM (NCS), Room 4125 8th & SO Courthouse Rd., Arlington, VA				
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CHAIRMAN, CEA Room 314, OEOB	1	10/3/89	12:02	A. H. Williams
CHAIRMAN, CEQ 722 Jackson Place, NW				
ADMINISTRATOR, GSA GSA Bldg., 18th & F Street, NW, Room 6137				
ADMINISTRATOR, NASA 400 Maryland Avenue, SW, Room 7137				
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PRESIDENT, EXPORT-IMPORT BANK 811 Vermont Avenue, NW, Room 1215				
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DIRECTOR, OFFICE OF PERSONNEL MGMT. 1900 E Street, NW, Room 5518				
ADMINISTRATOR, NATL. SCIENCE FOUNDATION (NSF) 1800 G Street, NW, Room 520				
ADMINISTRATOR, FAA (% DOT) 800 Independence Avenue, SW, Room 1010				

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MESSAGE NO. _____ CLASSIFICATION SECRET PAGES 32

FROM G. PHILIP HUGHES
(NAME) (EXTENSION) (ROOM NUMBER)

MESSAGE DESCRIPTION NSC MTG RE ECONOMIC ASSISTANCE TO POLAND
3 OCT 2:15 P.M.
LOG # 21211

TO (AGENCY)	DELIVER TO:	DEPT/ROOM NO.	EXTENSION
STATE	MR. J. STAPLETON ROY	EXEC SEC	
TREASURY	MS. EMILY L. WALKER	EXEC SEC	
DEFENSE	COL GEORGE P. COLE, JR.	EXEC SEC	
✓ COMMERCE	MR. CRAIG R. HELSING	CofS	
JCS	CAPT ANTHONY MANESS	EXEC ASST TO CHAIRMAN	
CIA	MR. H. LAWRENCE SANDALL	EXEC SEC	

REMARKS *** PLEASE DELIVER TO ADDRESSEE ASAP ***

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MESSAGE NO. _____ CLASSIFICATION _____ PAGES 32

FROM G. PHILIP HUGHES

(NAME) (EXTENSION) (ROOM NUMBER)

MESSAGE DESCRIPTION NSC MTG RE ECONOMIC ASSISTANCE TO POLAND

3 OCT*

LOG #21211

TO (AGENCY)	DELIVER TO:	DEPT/ROOM NO.	EXTENSION
STATE (AID)	MS. MOLLY HAGEBOECK	CofS	

REMARKS *** STATE PLEASE DELIVER ASAP TO AID CHIEF OF STAFF, MOLLY HAGEBOECK, EXT: 647-7237****

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NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

21211

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October 3, 1989

MEMORANDUM FOR MR. J. STAPLETON ROY
Executive Secretary
Department of State

MR. CARNES LORD
Assistant to the Vice President
for National Security Affairs

MS. EMILY L. WALKER
Executive Secretary
Department of Treasury

COL GEORGE P. COLE, JR.
Executive Secretary
Department of Defense

MS. SUSAN NELSON
Executive Assistant to the Secretary
Department of Agriculture

MR. CRAIG R. HELSING
Chief of Staff
Department of Commerce

MR. JOHN HEUBUSCH
Chief of Staff
Office of the Secretary
Department of Labor

MR. FRANK HODSOLL
Executive Associate Director
Office of Management and Budget

MR. GARY EDSON
Chief of Staff
U.S. Trade Representative

MR. MICHAEL BOSKIN
Chairman
President's Council of Economic Advisors

CAPT ANTHONY MANESS
Executive Assistant to the Chairman
Joint Chiefs of Staff

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3/10/2014 MM

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MS. MOLLY HAGEBOECK
Chief of Staff
Agency for International Development

MR. H. LAWRENCE SANDALL
Executive Secretary
Central Intelligence Agency

SUBJECT: NSC Meeting on Economic Assistance to Poland
October 3, 1989, 2:15 P.M. (S)

There will be an NSC Meeting, today, October 3, 2:15 p.m. in the Cabinet Room of the White House to discuss U.S. assistance to Poland. Attendance is principal plus one. Please call your attendance to Executive Secretary, 456-2224. (S)

G. PHILIP HUGHES
Executive Secretary

Attachments:
Tab I Poland Concept Paper
Tab II Presidential Letters to G-7 leaders, Delors, Mazowiecki and Jaruzelki
Tab III Press Office Statement

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Poland's Economic Plight: An Evaluation of the Proposed Reform Program and Possible U.S. Assistance Measures

Political and Economic Situation in Poland

The establishment of the first noncommunist government in Poland is truly historic. Prime Minister Mazowiecki has a chance to gain the public trust that is needed for the difficult economic steps ahead, but the honeymoon is undoubtedly of limited duration. The public is weary of chronic economic distress and the standard of living is actually lower today than 10 years ago. Any further significant decline in the economic well-being of the population would likely bring labor unrest and demands that could strangle incipient economic reforms. Mazowiecki's government is walking a treacherous path between hard-line communists who count on unrest to provide a pretext for a crackdown and radical workers who are determined to maintain the welfare state at whatever cost.

Economic reform will require a substantial overhaul of the government's management of the economy. The new Solidarity-led government must rein in inflation and secure worker tolerance, if not support, for tough measures that will affect them adversely. At a minimum, this will mean budgetary and enterprise financial discipline and replacement of Communist party-affiliated plant managers and economic officials, who lack managerial or technical expertise. In addition, the government must introduce incentives into the system, including encouragement of private enterprises; educate the public on the need for reform; and quickly get and maintain consensus within the government on the recently announced economic reform program.

Poland's Reform Program and the Requested Foreign Assistance

The reform program outlined by the new Finance Minister in meetings with senior U.S. officials calls for radical surgery. The plan envisions sharp reductions in the budget deficit, monetary growth and domestic credit; removal of price controls; devaluation of the zloty and movement toward convertibility; and policies designed to hold wage growth below inflation. Over the medium-term the government plans to eliminate restrictions on private sector activity; privatize large sectors of the state enterprise sector; reform the tax system; and create a stock exchange and private banks with foreign participation encouraged.

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To carry out the program, the Poles have requested foreign economic assistance in addition to an IMF program which the Poles hope to conclude toward year's end. The Poles want Western governments to: (a) provide $490 million in grants to cover a fourth quarter cash shortfall for 1989; (b) extend $1 billion in stabilization or stand-by loans in 1990; and (c) offer at least a three-year moratorium on official debt repayments.

Assessment of the Plan and Requested Assistance

The Polish economic situation is extremely complex and unique, involving both the problems of run away inflation and the difficulties of restructuring a nonmarket economy. Not only is the overall price level rising dramatically, requiring an economic stabilization program, but there is no recent history of appropriate relative prices. This necessitates a far-reaching structural adjustment plan. Relative prices will be critical, for example, in determining where to allocate investment.

Structural adjustment, involving the transition to a market economy, cannot take place in the midst of hyperinflation, so macroeconomic stabilization is a prerequisite for success of subsequent measures. The Polish stabilization plan is radical, but this is not unusual for a stabilization plan. While further details will need to be specified, the basic elements seem quite sensible.

There is concern that a radical stabilization will result in large (30 percent) reduction in real wages as wage indexation is removed and prices jump following a devaluation and further removal of price controls. The available data, which suggest that real wages have risen by more than 30 percent over the past year, are likely to overstate the current real wage level. Especially in urban areas, there are severe shortages of many goods. Stabilization and improvement in distribution could help urban workers, even if it resulted in a large measured real wage cut.

The Polish Plan calls for three types of foreign assistance:

(1) The requested $490 million would come in advance of an IMF stand-by and would need to be available in December. The Poles have arrived at the figure in the following way: They estimate that their fourth quarter cash shortfall will total $880 million. They are requesting $490 million to cover principal and interest due on unsecured debt and for imports of basic goods, including grain and pharmaceuticals. The remaining $390 would be covered by already announced

Western food assistance and deferral of interest payments on their London Club debt (commercial debt).

(2) The Poles want a $1 billion fund for currency stabilization. The money would have to be available in the January-March time-frame and would come after an IMF stand-by was negotiated. The fund might substantially improve the likelihood of successful economic stabilization. The amount is not excessive. A smaller amount will be less effective.

A currency stabilization fund would function primarily to strengthen the credibility of the authorities in implementing the comprehensive macroeconomic stabilization program. Such a program is designed to restore stability in the face of extreme inflationary pressures and a balance of payments crisis. The $1 billion lends credibility to the authorities' commitment to stable prices and a stable currency by enabling them to defend against speculative attacks. The very fact of a G-7 backed fund would build faith in the zloty. This may be a critical factor in the success of macroeconomic stabilization. For instance, the successful Israeli stabilization of 1985 included a U.S. currency stabilization loan of $1.5 billion over 2 years.

The money could be extended as loan or grant. Grants would probably be more effective since the West would then not add to Poland's heavy indebtedness. If the funds were not needed (if there were no run on the zloty), the grants could be used to augment the Enterprise Fund. This approach might also silence critics in Congress -- led by Paul Simon -- who wish to enhance the Enterprise Fund by $300 million per year over three years. We do, however, have the option of using loans for the stabilization fund.

The $1 billion figure for Poland represents the equivalent of about 2 months of Polish convertible currency imports. The size of the proposed fund relative to GDP is substantially smaller than the Israeli stabilization loan. The proposed loan to Poland is about 3.3 percent of GDP, while the loan to Israel was roughly 7.5 percent of GDP.

(3) The Polish Plan also calls for at least a 3-year moratorium on official debt repayments. The rationale is that Poland will require "time out" from transferring resources abroad so as to begin restructuring the economy. The resources can be used for investment domestically. A "time out" is likely to be an important component of getting the Polish economy on its feet. The United States has already indicated willingness to support early and generous

treatment of Polish debts in the Paris Club in advance of an IMF agreement.

The United States and other countries already have proposed a wide range of short term and longer term measures. However, many measures, for example, to encourage private investment, are unlikely to be successful without macroeconomic stabilization. Medium and longer-term measures should be supported and encouraged. As the Polish Plan recognizes, the first steps should focus on a well formulated macroeconomic stabilization program.

The U.S. Response

We need to act quickly to regain the initiative. The announcement by the President of expanded U.S. assistance would give the Poles hope and underscore our confidence in the new Polish government as it embarks on the painful path of economic reform. The House Foreign Affairs Committee intends to act Wednesday on both the Administration's pending Polish legislation and on a modified Simon-Cranston bill. If we do not counter with an effective legislative package of our own, the likely result will be adoption of a modified version of the Simon bill. Simon's bill has already been reported out of Senate Foreign Relations and is ready to go to the Senate floor. The following measures could constitute the U.S. response:

1. $200 Million Grant for Economic Stabilization

In response to Poland's request for a $1 billion stabilization fund the United States could offer $200 million in grants to promote longer-term economic growth in Poland. Such grants would be contingent upon Poland reaching agreement with the IMF, our Economic Summit partners joining us in reaching the $1 billion target for the fund, and the recommendation of the President's mission (see below). No U.S. resources would be disbursed from this stabilization fund until the experts' mission had reported to the President and we had coordinated use of the money with both the Polish Government and the G-24. One potential use of the fund would be to bolster Polish foreign currency reserves (balance of payments support) and provide a cushion against a collapse of the zloty. The advantages of such a grant are:

-- It responds to Poland's specific requests.
-- It would provide immediate economic support to the new Solidarity-led government as it attempts to implement economic reforms.

-- It would allow the Administration to regain the initiative from Congressional critics who favor more costly, but less focused aid measures.

The $490 million request is more problematic because the funds are required in advance of an IMF stand-by and cuts against our insistence on conditionality. The request might be handled through some combination of private sector contributions of funds for imports and public encouragement of commercial debt rescheduling.

2. Presidential Mission

In addition to the $200 million grant for stabilization purposes, the President could dispatch a high-level mission to Poland. Such a Presidential Mission would have both symbolic and substantive objectives. It would symbolize an enhanced U.S. commitment to assist Poland in the most effective way possible and demonstrate the President's continuing personal involvement. Substantively, its mandate would be to:

-- Contact economic leaders in the private and public sectors and further relationships already established by the visits of Secretary Mosbacher and the Agriculture Department to Poland;
-- Establish the cooperative framework for channeling U.S. expertise, public and private, into the sectors where it is needed most and likely to be most productive.
-- Coordinate this activity with the Polish stabilization program.
-- Establish mechanisms and organizational arrangements to facilitate the gathering of reliable data from which priorities for the sectors key to Poland's economic growth established and specific opportunities for technical assistance and investment of private capital can be identified;
-- Recommend a follow-through program with specific timelines and goals under which the appropriate experts will develop necessary data and identify specific technical assistance needs and investment opportunities.
-- Offer recommendations on how the $200 million provided by the U.S. as part of the stabilization funds might be spent most effectively.

The Mission would report to the President who would then brief Congress and selected world leaders and make his recommendations. It would also share its findings with the 24-nation Concerted Action Group. Either at the time of his statement outlining the new package or at the time that the

mission reports to him the President could announce that he is naming a senior level U.S. Coordinator for Poland to coordinate follow-on activities. The Coordinator would be responsible for coordinating U.S. public and private sector efforts and be the main contact with Poland and other countries, relevant international organizations, the Congress, and the media.

The $200 million stabilization grant and the Presidential Mission focus on different issues, but they are actually closely interrelated. It is essential that the United States response be cast in a coordinated economy-wide perspective. The $200 million grant would provide for stability of prices which is essential if economic reforms at the micro level are to be successful. The important initiatives resulting from Secretary Mosbacher's mission -- new cooperative frameworks, private sector agreements, and follow-up investment missions -- which will be developed as part of the Presidential Mission will have a lasting impact only if overall economic stability is achieved. Moreover, reductions in real wages and changes in relative prices, which are likely to result from the indexation reforms and the stabilization effort, have important implications for how firm-specific or sector-specific cooperation might best take place. Experiences with market reforms in China and Chile in recent years suggest the potential for failure if the individual reforms are not coordinated and sequenced in a proper fashion.

Expertise provided by the proposed U.S. Coordinator and coming from his team on the ground in Poland would eventually provide for a proper integration of all parts of the program. But in the meantime, it is essential that the Presidential Mission focus on how macroeconomic stabilization efforts and likely relative price changes interact with the many promising individual initiatives that will result form the Mission.

In developing this program for U.S. assistance to Poland, we should not draw attention away from Hungary. Poland has reached a new stage of reform with the selection of a non-communist government, but Hungary is also in the midst of fundamental political and economic change. Multiparty elections will likely be held next year, and the Hungarians have long had the most market-oriented economy in Eastern Europe. We need to take account too of the Hungarian's recent decision to allow East German refugees to emigrate to the FRG -- a decision that strained Hungarian relations with its conservative Warsaw Pact allies. Hungary's economic problems are not as severe as Poland's and the difficulties are of a different character. Effective aid to Hungary may rest heavily on technical assistance and private investment -- though debt restructuring may be necessary at some point too. The Hungarians have already

developed an economic reform plan, and we should be prepared to respond after the elections next year.

Allied coordination is a key element of an effective Western assistance program for Poland and Hungary. In reasserting U.S. leadership we must be careful that our initiatives are cast not as "made in America" but as our contribution to the Western effort. The President sponsored the concept of concerted action at the Paris Summit and endorsed the G-24 meetings. The U.S. must not be seen as backing away from a concerted effort. When the President decides on our new package, he should send letters to his counterparts describing our new initiative and asking that they contribute to the $1 billion fund. We might also instruct U.S. ambassadors in allied capitals to reiterate the need for Western support of a Paris Club rescheduling and other elements of the President's extant program.

The President could make an announcement of the new package early this week. At that time, the President might also issue invitations to President Jaruzelski and Prime Minister Mazowiecki to visit the United States.

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Message from President Bush to President Mitterrand
via White House Privacy Channels

Dear Francois,

I am writing to share with you some additional thoughts about the historic developments of the past few weeks in Poland. The formation of a Solidarity-led government under Prime Minister Mazowiecki, and the manner in which this dramatic transformation took place, puts Poland at the forefront of peaceful democratic transition in Eastern Europe.

As we were saying on the phone recently, the events in Poland are historic, with the potential to transform and overcome the post-war division of Europe. Prime Minister Mazowiecki and his government have a unique opportunity to introduce meaningful economic reform, which will pave the way for a more prosperous future. But that opportunity may be short-lived, if the Polish people believe that economic reform simply means more austerity.

My Administration had a series of meetings last week with key ministers in the new Polish government and reviewed the outlines of their economic reform program. As the U.S. delegation noted at last week's meeting of the Group of 24 in Brussels, it is an ambitious and bold plan, calling for radical economic reform and rapid movement toward agreement with the IMF. An integral part of the plan is an urgent request for Western economic assistance in helping to stabilize the Polish economy as reforms are implemented. In the context of an agreement with the IMF, the Poles seek, in addition to IMF and World Bank support, $1 billion in stabilization funds from the industrialized countries. Our own calculations indicate that this figure is about right.

I want to be responsive to Poland's request and to encourage the West's concerted action toward that end. I have decided to seek from Congress a $200 million grant for stabilization purposes, as the U.S. contribution to the $1 billion in Western assistance the Poles have requested. This grant would be contingent upon conclusion of an IMF agreement, and upon the recommendations of an experts' mission that I plan to send to Poland soon. I believe Western assistance for this purpose should take the form of grants rather than loans, which would only add to Poland's enormous external debt.

I will be making a formal announcement on October 3, because I consider it important to act quickly so as to help solidify support within Poland for the new reform program. My announcement will also reaffirm the importance I attach to working together with you and our economic partners to strengthen concerted action in support of Poland's reforms.

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I hope France will make a major contribution to this $1 billion multilateral stabilization fund to meet Poland's urgent needs, since the concept can be effective only if it is fully funded. We must do all we can to help the Poles succeed with a reform plan that has IMF approval. A prompt Western commitment to provide the full $1 billion in grants upon conclusion of an IMF agreement would be a strong incentive for the Poles to press ahead with their reforms and negotiations with the IMF.

I also plan to send a high-level Presidential mission to Poland consisting of economic and technical experts who would discuss and evaluate Polish needs and plans. On the basis of their report, and after consultation with you, with the EC Commission, and with other major donors, I would then formulate a more detailed plan for how best to structure long term U.S. assistance to Poland. The plan would be designed primarily to stimulate Polish agriculture and private sector development and help to make Poland economically viable as quickly as possible. I will also ask this group to make its findings available to the Group of 24.

In that context, I am very gratified by the progress made since the Paris Economic Summit in developing concerted Western action, and by the EC "action plan" announced in Brussels September 26. As the group continues to develop a common general strategy, it will be important for the U.S., France, and the other G-7 countries to take an active leadership role in charting its agenda.

I shall be sharing some of these same thoughts with our other G-7 partners and with Commission President Jacques Delors. I would welcome hearing more about your own plans with respect to Poland, as well as your views on our coordination efforts.

With my warmest personal regards,

Sincerely,

~~SECRET~~

Message from President Bush to Chancellor Kohl
via White House Privacy Channels

Dear Helmut,

I am writing to share with you some additional thoughts about the historic developments of the past few weeks in Poland. The formation of a Solidarity-led government under Prime Minister Mazowiecki, and the manner in which this dramatic transformation took place, puts Poland at the forefront of peaceful democratic transition in Eastern Europe.

As I was saying to Theo Waigel a few days ago, the events in Poland are historic, with the potential to transform and overcome the post-war division of Europe. Prime Minister Mazowiecki and his government have a unique opportunity to introduce meaningful economic reform, which will pave the way for a more prosperous future. But that opportunity may be short-lived, if the Polish people believe that economic reform simply means more austerity.

My Administration had a series of meetings last week with key ministers in the new Polish government and reviewed the outlines of their economic reform program. As the U.S. delegation noted at last week's meeting of the Group of 24 in Brussels, it is an ambitious and bold plan, calling for radical economic reform and rapid movement toward agreement with the IMF. An integral part of the plan is an urgent request for Western economic assistance in helping to stabilize the Polish economy as reforms are implemented. In the context of an agreement with the IMF, the Poles seek, in addition to IMF and World Bank support, $1 billion in stabilization funds from the industrialized countries. Our own calculations indicate that this figure is about right.

I want to be responsive to Poland's request and to encourage the West's concerted action toward that end. I have decided to seek from Congress a $200 million grant for stabilization purposes, as the U.S. contribution to the $1 billion in Western assistance the Poles have requested. This grant would be contingent upon conclusion of an IMF agreement, and upon the recommendations of an experts' mission that I plan to send to Poland soon. I believe Western assistance for this purpose should take the form of grants rather than loans, which would only add to Poland's enormous external debt.

I will be making a formal announcement on October 3, because I consider it important to act quickly so as to help solidify support within Poland for the new reform program. My announcement will also reaffirm the importance I attach to working together with you and our economic partners to strengthen concerted action in support of Poland's reforms.

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I hope the Federal Republic will make a major contribution to this $1 billion multilateral stabilization fund to meet Poland's urgent needs, since the concept can be effective only if it is fully funded. We must do all we can to help the Poles succeed with a reform plan that has IMF approval. A prompt Western commitment to provide the full $1 billion in grants upon conclusion of an IMF agreement would be a strong incentive for the Poles to press ahead with their reforms and negotiations with the IMF.

I also plan to send a high-level Presidential mission to Poland consisting of economic and technical experts who would discuss and evaluate Polish needs and plans. On the basis of their report, and after consultation with you, with the EC Commission, and with other major donors, I would then formulate a more detailed plan for how best to structure long term U.S. assistance to Poland. The plan would be designed primarily to stimulate Polish agriculture and private sector development and help to make Poland economically viable as quickly as possible. I will also ask this group to make its findings available to the Group of 24.

In that context, I am very gratified by the progress made since the Paris Economic Summit in developing concerted Western action, and by the EC "action plan" announced in Brussels September 26. As the group continues to develop a common general strategy, it will be important for the U.S., the Federal Republic, and the other G-7 countries to take an active leadership role in charting its agenda.

I shall be sharing some of these same thoughts with our other G-7 partners and with Commission President Jacques Delors. I would welcome hearing more about your own plans with respect to Poland, as well as your views on our coordination efforts.

I am gratified that you are feeling better, and I look forward to seeing you in the fall.

With my warmest personal regards,

Sincerely,

~~SECRET~~

Message from President Bush to Prime Minister Andreotti
via White House Privacy Channels

Dear Giulio,

I am writing to share with you some of my thoughts about the historic developments of the past few weeks in Poland. The formation of a Solidarity-led government under Prime Minister Mazowiecki, and the manner in which this dramatic transformation took place, puts Poland at the forefront of peaceful democratic transition in Eastern Europe.

The events in Poland are historic, with the potential to transform and overcome the post-war division of Europe. Prime Minister Mazowiecki and his government have a unique opportunity to introduce meaningful economic reform, which will pave the way for a more prosperous future. But that opportunity may be short-lived, if the Polish people believe that economic reform simply means more austerity.

My Administration had a series of meetings last week with key ministers in the new Polish government and reviewed the outlines of their economic reform program. As the U.S. delegation noted at last week's meeting of the Group of 24 in Brussels, it is an ambitious and bold plan, calling for radical economic reform and rapid movement toward agreement with the IMF. An integral part of the plan is an urgent request for Western economic assistance in helping to stabilize the Polish economy as reforms are implemented. In the context of an agreement with the IMF, the Poles seek, in addition to IMF and World Bank support, $1 billion in stabilization funds from the industrialized countries. Our own calculations indicate that this figure is about right.

I want to be responsive to Poland's request and to encourage the West's concerted action toward that end. I have decided to seek from Congress a $200 million grant for stabilization purposes, as the U.S. contribution to the $1 billion in Western assistance the Poles have requested. This grant would be contingent upon conclusion of an IMF agreement, and upon the recommendations of an experts' mission that I plan to send to Poland soon. I believe Western assistance for this purpose should take the form of grants rather than loans, which would only add to Poland's enormous external debt.

I will be making a formal announcement on October 3, because I consider it important to act quickly so as to help solidify support within Poland for the new reform program. My announcement will also reaffirm the importance I attach to working together with you and our economic partners to strengthen concerted action in support of Poland's reforms.

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I hope Italy will make a major contribution to this $1 billion multilateral stabilization fund to meet Poland's urgent needs, since the concept can be effective only if it is fully funded. We must do all we can to help the Poles succeed with a reform plan that has IMF approval. A prompt Western commitment to provide the full $1 billion in grants upon conclusion of an IMF agreement would be a strong incentive for the Poles to press ahead with their reforms and negotiations with the IMF.

I also plan to send a high-level Presidential mission to Poland consisting of economic and technical experts who would discuss and evaluate Polish needs and plans. On the basis of their report, and after consultation with you, with the EC Commission, and with other major donors, I would then formulate a more detailed plan for how best to structure long term U.S. assistance to Poland. The plan would be designed primarily to stimulate Polish agriculture and private sector development and help to make Poland economically viable as quickly as possible. I will also ask this group to make its findings available to the Group of 24.

In that context, I am very gratified by the progress made since the Paris Economic Summit in developing concerted Western action, and by the EC "action plan" announced in Brussels September 26. As the group continues to develop a common general strategy, it will be important for the U.S., Italy, and the other G-7 countries to take an active leadership role in charting its agenda.

I shall be sharing some of these same thoughts with our other G-7 partners and with Commission President Jacques Delors. I would welcome hearing more about your own plans with respect to Poland, as well as your views on our coordination efforts.

With warm regards,

Sincerely,

~~SECRET~~

Message from President Bush to Prime Minister Mulroney
via White House Privacy Channels

Dear Brian,

Following up on our talks in Kennebunkport, I want to share with you some additional thoughts about the historic developments of the past few weeks in Poland. The formation of a Solidarity-led government under Prime Minister Mazowiecki, and the manner in which this dramatic transformation took place, puts Poland at the forefront of peaceful democratic transition in Eastern Europe.

The events in Poland are historic, with the potential to transform and overcome the post-war division of Europe. Prime Minister Mazowiecki and his government have a unique opportunity to introduce meaningful economic reform, which will pave the way for a more prosperous future. But that opportunity may be short-lived, if the Polish people believe that economic reform simply means more austerity.

My Administration had a series of meetings last week with key ministers in the new Polish government and reviewed the outlines of their economic reform program. As the U.S. delegation noted at last week's meeting of the Group of 24 in Brussels, it is an ambitious and bold plan, calling for radical economic reform and rapid movement toward agreement with the IMF. An integral part of the plan is an urgent request for Western economic assistance in helping to stabilize the Polish economy as reforms are implemented. In the context of an agreement with the IMF, the Poles seek, in addition to IMF and World Bank support, $1 billion in stabilization funds from the industrialized countries. Our own calculations indicate that this figure is about right.

I want to be responsive to Poland's request and to encourage the West's concerted action toward that end. I have decided to seek from Congress a $200 million grant for stabilization purposes, as the U.S. contribution to the $1 billion in Western assistance the Poles have requested. This grant would be contingent upon conclusion of an IMF agreement, and upon the recommendations of an experts' mission that I plan to send to Poland soon. I believe Western assistance for this purpose should take the form of grants rather than loans, which would only add to Poland's enormous external debt.

I will be making a formal announcement on October 3, because I consider it important to act quickly so as to help solidify support within Poland for the new reform program. My announcement will also reaffirm the importance I attach to working together with you and our economic partners to strengthen concerted action in support of Poland's reforms.

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I hope Canada will make an important contribution to this $1 billion multilateral stabilization fund to meet Poland's urgent needs, since the concept can be effective only if it is fully funded. We must do all we can to help the Poles succeed with a reform plan that has IMF approval. A prompt Western commitment to provide the full $1 billion in grants upon conclusion of an IMF agreement would be a strong incentive for the Poles to press ahead with their reforms and negotiations with the IMF.

I also plan to send a high-level Presidential mission to Poland consisting of economic and technical experts who would discuss and evaluate Polish needs and plans. On the basis of their report, and after consultation with you, with the EC Commission, and with other major donors, I would then formulate a more detailed plan for how best to structure long term U.S. assistance to Poland. The plan would be designed primarily to stimulate Polish agriculture and private sector development and help to make Poland economically viable as quickly as possible. I will also ask this group to make its findings available to you the Group of 24.

In that context, I am very gratified by the progress made since the Paris Economic Summit in developing concerted Western action, and by the EC "action plan" announced in Brussels September 26. As the group continues to develop a common general strategy, it will be important for the U.S., Canada, and the other G-7 countries to take an active leadership role in charting its agenda.

I shall be sharing some of these same thoughts with our other G-7 partners and with Commission President Jacques Delors. I would welcome hearing more about your own plans with respect to Poland, as well as your views on our coordination efforts.

With my warmest personal regards,

Sincerely,

~~SECRET~~

Message from President Bush to Prime Minister Kaifu
via White House Privacy Channels

Dear Toshiki,

I am writing to share with you some of my thoughts about the historic developments of the past few weeks in Poland. The formation of a Solidarity-led government under Prime Minister Mazowiecki, and the manner in which this dramatic transformation took place, puts Poland at the forefront of peaceful democratic transition in Eastern Europe.

The events in Poland are historic, with the potential to transform and overcome the post-war division of Europe. Prime Minister Mazowiecki and his government have a unique opportunity to introduce meaningful economic reform, which will pave the way for a more prosperous future. But that opportunity may be short-lived, if the Polish people believe that economic reform simply means more austerity.

My Administration had a series of meetings last week with key ministers in the new Polish government and reviewed the outlines of their economic reform program. As the U.S. delegation noted at last week's meeting of the Group of 24 in Brussels, it is an ambitious and bold plan, calling for radical economic reform and rapid movement toward agreement with the IMF. An integral part of the plan is an urgent request for Western economic assistance in helping to stabilize the Polish economy as reforms are implemented. In the context of an agreement with the IMF, the Poles seek, in addition to IMF and World Bank support, $1 billion in stabilization funds from the industrialized countries. Our own calculations indicate that this figure is about right.

I want to be responsive to Poland's request and to encourage the West's concerted action toward that end. I have decided to seek from Congress a $200 million grant for stabilization purposes, as the U.S. contribution to the $1 billion in Western assistance the Poles have requested. This grant would be contingent upon conclusion of an IMF agreement, and upon the recommendations of an experts' mission that I plan to send to Poland soon. I believe Western assistance for this purpose should take the form of grants rather than loans, which would only add to Poland's enormous external debt.

I will be making a formal announcement on October 3, because I consider it important to act quickly so as to help solidify support within Poland for the new reform program. My announcement will also reaffirm the importance I attach to working together with you and our economic partners to strengthen concerted action in support of Poland's reforms.

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I hope Japan will make a major contribution to this $1 billion multilateral stabilization fund to meet Poland's urgent needs, since the concept can be effective only if it is fully funded. We must do all we can to help the Poles succeed with a reform plan that has IMF approval. A prompt Western commitment to provide the full $1 billion in grants upon conclusion of an IMF agreement would be a strong incentive for the Poles to press ahead with their reforms and negotiations with the IMF.

I also plan to send a high-level Presidential mission to Poland consisting of economic and technical experts who would discuss and evaluate Polish needs and plans. On the basis of their report, and after consultation with you, with the EC Commission, and with other major donors, I would then formulate a more detailed plan for how best to structure long term U.S. assistance to Poland. The plan would be designed primarily to stimulate Polish agriculture and private sector development and help to make Poland economically viable as quickly as possible. I will also ask this group to make its findings available to the Group of 24.

In that context, I am very gratified by the progress made since the Paris Economic Summit in developing concerted Western action, and by the EC "action plan" announced in Brussels September 26. As the group continues to develop a common general strategy, it will be important for the U.S., Japan, and the other G-7 countries to take an active leadership role in charting its agenda.

I shall be sharing some of these same thoughts with our other G-7 partners and with Commission President Jacques Delors. I would welcome hearing more about your own plans with respect to Poland, as well as your views on our coordination efforts, and I urge you to join me in giving Poland's new government a chance to succeed. Now is the time for action.

With warm regards,

Sincerely,

Withdrawal/Redaction Sheet
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Document No. and Type	Subject/Title of Document	Date	Restriction	Class.
02h. Letter	Message from President Bush to EC [European Community] Commission President Delors, Re: Events in Poland [FOIA restrictions redacted] (2 pp.)	n.d.	(b)(1)	S

Collection:

Record Group: Bush Presidential Records
Office: National Security Council
Series: H-Files
Subseries: NSC Meetings Files
WHORM Cat.:
File Location: NSC0030 - October 03, 1989 - Poland, Economic Assistance

Document Partially Declassified
(Copy of Document Follows)
By MM on 1/25/2023

Date Closed:	9/11/2009	**OA/ID Number:**	90001-018
FOIA/SYS Case #:	2004-0967-F	**Appeal Case #:**	
Re-review Case #:		**Appeal Disposition:**	
P-2/P-5 Review Case #:		**Disposition Date:**	
AR Case #:		**MR Case #:**	2012-0275-MR (511.09)
AR Disposition:		**MR Disposition:**	Released in Part
AR Disposition Date:		**MR Disposition Date:**	4/7/2016

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Message from President Bush to EC Commission President Delors [redacted] for Ambassador Niles to deliver to Delors

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Dear Jacques,

I am writing to share with you some thoughts about the historic developments of the past few weeks in Poland. The formation of a Solidarity-led government under Prime Minister Mazowiecki, and the manner in which this dramatic transformation took place, puts Poland at the forefront of peaceful democratic transition in Eastern Europe.

The events in Poland are historic, with the potential to transform and overcome the post-war division of Europe. Prime Minister Mazowiecki and his government have a unique opportunity to introduce meaningful economic reform, which will pave the way for a more prosperous future. But that opportunity may be short-lived, if the Polish people believe that economic reform simply means austerity.

My Administration had a series of meetings last week with key ministers in the new Polish government and reviewed the outlines of their economic reform program. As the U.S. delegation noted at last week's meeting of the Group of 24 in Brussels, it is an ambitious and bold plan, calling for radical economic reform and rapid movement toward agreement with the IMF. An integral part of the plan is an urgent request for Western economic assistance in helping to stabilize the Polish economy as reforms are implemented. In the context of an agreement with the IMF, the Poles seek, in addition to IMF and World Bank support, $1 billion in stabilization funds from the industrialized countries. Our own calculations indicate that this figure is about right.

I want to be responsive to Poland's request and to encourage the West's concerted action toward that end. I have decided to seek from Congress a $200 million grant for stabilization purposes, as the U.S. contribution to the $1 billion in Western assistance the Poles have requested. This grant would be contingent upon *conclusion of an IMF agreement, and upon the recommendations of* an experts' mission that I plan to send to Poland soon. I believe Western assistance for this purpose should take the form of grants rather than loans, which would only add to Poland's enormous external debt.

I will be making a formal announcement on October 3, because I consider it important to act quickly so as to help solidify support within Poland for the new reform program. My announcement will also reaffirm the importance I attach to working together with the Commission and our economic partners to strengthen concerted action in support of Poland's reforms.

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I hope other Western countries will make major contributions to this $1 billion multilateral stabilization fund to meet Poland's urgent needs, since the concept can be effective only if it is fully funded. We must do all we can to help the Poles succeed with a reform plan that has IMF approval. A prompt Western commitment to provide the full $1 billion in grants upon conclusion of an IMF agreement would be a strong incentive for the Poles to press ahead with their reforms and negotiations with the IMF.

I also plan to send a high-level Presidential mission to Poland consisting of economic and technical experts who would discuss and evaluate Polish needs and plans. On the basis of their report, and after consultation with the Commission and the major donors, I would then formulate a more detailed plan for how best to structure long term U.S. assistance to Poland. The plan would be designed primarily to stimulate Polish agriculture and private sector development and help to make Poland economically viable as quickly as possible. I will also ask this group to make its findings available to the Group of 24.

In that context, I am very gratified by the progress made since the Paris Economic Summit in developing concerted Western action, and by the EC "action plan" announced in Brussels September 26. I appreciate your efforts in helping develop a common general strategy and an effective mechanism for cooperation.

I shall be sharing these same thoughts with my G-7 counterparts. I would welcome hearing more about your own thinking with respect to Poland, as well as your views on our coordination efforts.

With warm regards,

Sincerely,

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Message from President Bush to Prime Minister Thatcher,
via White House Privacy Channels

Dear Margaret,

I have just received your letter describing your talks with President Gorbachev, following up on your helpful discussion with our Charge in Moscow. I am glad you had such a good exchange of views with Gorbachev, and I am grateful for your help in conveying my messages to him.

Let me turn now to Poland. Your letter of September 4, and our recent talk over the telephone, demonstrates that we are thinking very much alike on how we should respond to the historic developments of the past few weeks. The formation of a Solidarity-led government under Prime Minister Mazowiecki, and the manner in which this dramatic transformation took place, is a moving demonstration of Poland's peaceful democratic transition.

You have correctly posed the challenge. Prime Minister Mazowiecki and his government have a chance of acquiring the public trust that is needed to gain support for the difficult economic steps ahead. But the opportunity may be short-lived, as Poles grow impatient with what inevitably will be a difficult, uneven path toward economic reform. The danger is that public impatience and a resumption of spiralling wage demands could threaten the progress made toward democracy, with consequences, as you point out, that go far beyond Poland itself.

Without fueling a sense or urgency or crisis, we need to demonstrate our support as the new Polish government begins to tackle its enormous economic and political challenges. As John Major pointed out in his recent meeting with me, it will be important to keep the spotlight on the need for fundamental economic reform and reaching agreement with the IMF, which along with World Bank loans and a generous rescheduling of the Polish debt will get Poland on the road to recovery. The support we offer -- food aid, equity investment, technical and other assistance -- should be aimed at facilitating the Polish government's ability to press ahead with economic reforms. We must do nothing that would encourage the Poles to believe that the West can relieve them of the need for deep and painful economic measures.

I share the basic thrust of your comments on the need for an exacting but not unbearable IMF program, for a far-reaching Paris Club rescheduling with commensurate action by the commercial banks, and for substantial IBRD lending in the context of an agreed macroeconomic program. I also share your views on the need for training, institution-building, and private equity investment. As you mentioned, the Polish-American Enterprise Fund is designed largely to help catalyze private investment, both within Poland and from outside. We also plan some

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assistance in training and institution-building, but many of the details remain to be worked out.

I also believe that while helping build Poland's economic future, the Western democracies must address its immediate needs in the period of initial economic reform. My Administration had a series of meetings last week with key ministers in the new Polish government and reviewed the outlines of their economic reform program. As the U.S. delegation noted at last week's meeting of the Concerted Action Group in Brussels, it is an ambitious and bold plan, calling for radical economic reform and rapid movement toward agreement with the IMF. An integral part of the plan is an urgent request for Western economic assistance in helping to stabilize the Polish economy as reforms are implemented. In the context of an agreement with the IMF, the Poles seek, in addition to IMF and World Bank support, $1 billion in stabilization funds from the industrialized countries. Our own calculations indicate that this figure is about right.

I want to be responsive to Poland's request and to encourage the West's concerted action toward that end. I have decided to seek from Congress a $200 million grant for stabilization purposes, as the U.S. contribution to the $1 billion in Western assistance the Poles have requested, and which would be contingent upon conclusion of an IMF agreement, and upon the recommendations of an experts' mission that I plan to send to Poland soon. I believe Western assistance for this purpose should take the form of grants rather than loans, which would only add to Poland's enormous external debt.

I will be making a formal announcement on October 3, because I consider it important to act quickly so as to help solidify support within Poland around the new reform program. My announcement will also reaffirm the importance I attach to working together with you and our economic partners to strengthen concerted action in support of Poland's reforms.

I hope the United Kingdom will make a major contribution to this $1 billion multilateral stabilization fund to meet Poland's urgent needs. The Mazowiecki government has concluded that it has but a brief period in which to act, and it has put forward a bold and courageous reform plan. I consider it vitally important that we do all we can to help the Poles succeed with a reform plan that has IMF approval. A prompt Western commitment to provide $1 billion in grants upon conclusion of an IMF agreement would be a strong incentive for the Poles to press ahead with their reforms and negotiations with the IMF.

I also plan to send a high-level Presidential mission to Poland consisting of economic and technical experts who would discuss and evaluate Polish needs and plans. On the basis of their report, and after consultation with you, with the EC Commission,

and with other major donors, I would then formulate a more detailed plan for how best to structure long term U.S. assistance to Poland. The plan would be designed primarily to stimulate Polish agriculture and private sector development and help to make Poland economically viable as quickly as possible. I will also ask this group to make its findings available to you through the Group of 24.

In that context, I am very gratified by the progress made since the Paris Economic Summit in developing concerted Western action, and by the "action plan" presented by the EC. As the group continues to develop a common general strategy, it will be important for the U.S., Great Britain, and the other G-7 countries to take an active leadership role in charting its agenda.

I shall be sharing some of these same thoughts with our other G-7 partners and with Commission President Jacques Delors. I would welcome hearing more about your own plans with respect to Poland, as well as your views on our coordination efforts.

With my warmest personal regards,

Sincerely,

~~SECRET~~

MESSAGE TO PRESIDENT JARUZELSKI

Dear Mr. President,

You spoke eloquently during my visit about your hopes for Poland's future and the importance of U.S. support for Poland's economic recovery. I assured you that we would help and announced specific measures we would take and are taking. To meet Poland's needs for emergency food supplies, as you know, we are also making available more than $100 million in food aid in the coming year.

My Administration had a series of meetings last week with key ministers of the new Polish government and reviewed the outlines of the economic reform program they presented. It is a bold and courageous plan, which I hope will lead to early conclusion of an agreement with the IMF. It also calls for $1 billion in economic stabilization assistance from the industrialized countries in the context of an IMF agreement.

I want to be responsive to Poland's request and to encourage the West's concerted action toward that end. I have therefore decided to request that the U.S. Congress approve a $200 million stabilization grant for Poland. This grant would be contingent upon Poland's conclusion of an agreement with the IMF, and upon the recommendations of an experts' mission that I would propose to send to Poland soon. This would be the U.S. contribution to the $1 billion in Western stabilization assistance your government has requested. I will work with our leading economic partners to ensure complete financing of the stabilization fund, since the concept is workable only if fully funded.

I told you during my visit of my desire to assist Poland effectively and promptly. I believe that consultations between experts in the West and those in Poland would be useful to assist your reform efforts and your negotiations with the IMF. I therefore would like to send a high-level Presidential mission to Poland consisting of economic and technical experts who would discuss and evaluate your needs and plans. On the basis of their report, and after consultations with our Western economic partners, I would then formulate a more detailed plan for how best to structure long term U.S. assistance to Poland. This long term plan would be designed primarily to stimulate agricultural and private sector development and help to make Poland economically strong as quickly as possible.

So much as happened since we met in July. Poland is earning international admiration for its determination to address the difficult steps needed to restore Poland's creditworthiness and put its economy on the road to recovery. I salute you, Mr. President, for your wisdom and realism in launching Poland on the road to reform last April.

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I hope that you will allow me to return your generous hospitality during my visit to Poland and renew our very useful discussions in light of all that has transpired since July. May I take this opportunity to invite you to visit the United States early in the coming year. I will very much look forward to seeing you again.

With warm regards,

Sincerely,

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MESSAGE TO PRIME MINISTER MAZOWIECKI

Dear Mr. Prime Minister,

I was glad to receive your letter of September 25, and was impressed once again by your determination to press ahead with the economic and political tasks before you. I share your hopes for Poland's future and understand that the success of your efforts will depend, in part, on Western support.

My Administration had a series of meetings last week with your key ministers and reviewed the outlines of the economic reform program they presented. It is a bold and courageous plan, which I hope will lead to early conclusion of an agreement with the IMF. It also calls for $1 billion in economic stabilization assistance from the industrialized countries in the context of an IMF agreement.

I want to be responsive to Poland's request and to encourage the West's concerted action toward that end. I have therefore decided to request that the U.S. Congress approve a $200 million stabilization grant for Poland. This grant would be contingent upon Poland's conclusion of an agreement with the IMF, and upon the recommendations of an experts' mission that I would propose to send to Poland soon. This would be the U.S. contribution to the $1 billion in Western stabilization assistance your government has requested. I will work with our leading economic partners to ensure complete financing of the stabilization fund, since the concept is workable only if fully funded.

The Polish economic reform program also calls for close consultation with the international community as the plan is developed and implemented. I agree that such consultations would be useful to assist your reform efforts and your negotiations with the IMF. I therefore would like to send a high-level Presidential mission to Poland consisting of economic and technical experts who would discuss and evaluate your needs and plans. On the basis of their report, and after consultations with our Western economic partners, I would then formulate a more detailed plan for how best to structure long term U.S. assistance to Poland. This long term plan would be designed primarily to stimulate agricultural and private sector development and help to make Poland economically strong as quickly as possible.

Having impressed the world with its rapid movement toward democratic change, Poland is now earning international admiration for its determination to address the difficult steps needed to restore Poland's creditworthiness and put its economy on the road to recovery. I salute you for your efforts, and pledge once again our continuing support for Poland's new beginning.

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I also would welcome the opportunity to meet with you personally, and to discuss your plans for Poland's future and ways the United States might be helpful. May I therefore take this occasion to invite you to visit the United States at an early opportunity. I very much look forward to meeting you.

With warm regards,

Sincerely,

~~SECRET~~

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release

STATEMENT BY THE PRESS SECRETARY

The world has watched with wonder as Poland has moved -- swiftly and peacefully -- to form a new government under Prime Minister Mazowiecki, the first non-Communist government in Eastern Europe in more than forty years. We salute Prime Minister Mazowiecki, President Jaruzelski, Solidarity leader Lech Walesa and so many other distinguished Polish leaders for their courage and wisdom in helping bring about a new beginning for Poland.

From the very start of this Administration, President Bush has taken the lead in supporting reform in Poland and Hungary. At Hamtramck, Michigan, in April, on the day of the signing of the Roundtable Agreement in Poland, the President announced a set of measures to open U.S. markets and encourage private sector loans and investments. In July, he visited Poland and Hungary and spoke before the new, freely elected Polish parliament, as well as to a massive gathering at the Solidarity monument in Gdansk. He announced a further comprehensive package of assistance measures to support Poland's economic and political regeneration, a package which took account of the fact that Poland did not yet have its new government or its new economic policies in place. He announced a similar program during his visit to Hungary, which is also embarked on a promising path of political and economic reform. A few days later, at the Paris Economic Summit, the President proposed and our Summit partners agreed to a plan for concerted Western action to encourage and assist economic reform and democratic change in Poland and Hungary.

In early September, the Administration submitted to Congress a comprehensive legislative proposal that would create a $100 million Enterprise Fund for Poland and a $25 million Fund for Hungary, as well as a Labor Initiative and an Environmental Initiative together totalling $20 million. In addition to this $145 million proposal and other initiatives we have taken by reprogramming existing resources, we have offered $100 million in emergency food aid to Poland in the coming fiscal year, in addition to $8 million in FY 89. In dollar terms, this total package already involves over $250 million.

We have also moved to encourage new trade and investment, granting both Poland and Hungary access to the U. S. Generalized System of Preferences and authorizing, pending Congressional

action, the Overseas Private Investment Corporation to operate in both countries. On September 18, the President announced that he would grant Hungary permanent Most Favored Nation status, pending passage by the Hungarian parliament of new emigration legislation.

We have engaged the resources and creativity of the private sector, recognizing that the U.S. Government alone could not, and should not, render all the support Poland and Hungary require. On the eve of his trip to those countries in July, the President hosted a White House Symposium in which he urged leaders from the American private sector -- labor leaders, businessmen, educators, and others -- to be actively engaged in supporting economic and political change in Eastern Europe. In mid-September, Commerce Secretary Mosbacher led a U.S. investment mission to Poland and Hungary, where he and American businessmen developed concrete proposals to encourage new private investments, joint ventures, and other forms of expanded U.S. business involvement in redeveloping these two economies.

The dramatic changes in Poland over the past two months have lent new urgency to our efforts. What Poland is doing is historic, in the largest sense of the word. It holds the promise not only of a peaceful transition to democratic rule in Poland, but also of the beginning of the end of Europe's division, toward a Europe whole and free. It is also unprecedented: never before has a country attempted a successful transformation of a state-controlled economic and political system into one of political pluralism, democracy and a market economy. The new Polish government under Prime Minister Mazowiecki has a chance to consolidate the public trust that is needed for the difficult economic steps ahead, but it faces major economic problems.

There is no disagreement that Poland needs, and will have, strong U.S. support. There is no disagreement that the U.S. needs to play a leading role in developing a concerted Western approach to Poland's economic recovery. The question is how best to achieve our goal. We believe, as do our Western economic partners, that Poland can best go forward by reforming its economy and becoming credit-worthy again by reaching early agreement with the IMF on an economic reform plan. We also support a prompt and generous Paris Club rescheduling of Poland's international debt. This, along with agreement with the IMF, will make Poland eligible for IMF and World Bank loans totalling hundreds of millions of dollars annually. It will also give confidence to official and commercial creditors, whose participation in Poland's recovery is vital.

Poland is taking important steps toward reforming its economy. The Administration had a series of meetings last week with key ministers in the new Polish government and reviewed the outlines of their economic reform program. It is an ambitious and bold plan, calling for radical economic reform and rapid movement toward agreement with the IMF. An integral part of the plan is an urgent request for Western economic assistance in helping to

stabilize the Polish economy as reforms are implemented. In the context of an agreement with the IMF, the Poles seek, in addition to IMF and World Bank support, $1 billion in stabilization funds from the industrialized countries.

In response to Poland's request, the President has decided on two major new steps.

First, he will ask Congress to approve a $200 million grant for stabilization purposes, which would be the U.S. contribution to the $1 billion in Western assistance the Poles have requested, and which would be contingent upon conclusion of an IMF agreement. The U.S. will be working closely with its allies to make certain that the entire $1 billion is available to Poland for this stabilization fund since the concept can be effective only if the fund is fully financed. A program for use of the $200 million U.S. contribution will be worked out with the Polish government. The President will be ready to work with Congress to develop a strong bipartisan approach toward the common goal of providing prompt and effective support to the government and people of Poland.

Second, in addition to providing urgently needed assistance to help stabilize the Polish economy as reforms are introduced, it is important to develop a longer term strategy to assist Poland's recovery. Toward that end, the President will send to Warsaw within the next few weeks a Presidential Mission including senior U.S. officials and business and academic leaders to discuss with the Polish government its economic plans and evaluate its needs. The mission will make recommendations to the President based on their own findings and their deliberations with G-24 experts on the most effective use of the $1 billion stabilization fund. This mission will also focus on those economic sectors where U.S. expertise and experience can be of greatest assistance -- agriculture, business management, financial services and others, pinpointing areas for reform and for productive use of assistance resources. This initial mission will be followed by experts' missions in key economic sectors.

As the President has said, the future of Poland and Hungary depend on concerted and sustained Western action. These efforts must be complementary, not duplicative, and must be coordinated with the efforts of the IMF and World Bank. That is why the President called on our G-7 economic partners at the Paris Economic Summit to establish new mechanisms for coordinating our efforts. The twenty-four nation "Group for Economic Assistance to Poland and Hungary", which emerged from the Paris Summit, has already met three times and has pledged $271 million dollars in emergency food aid to Poland. It has also begun to develop a common assistance strategy for Poland and Hungary. Beyond food aid, West Germany, France, Britain, Japan, and several other countries have already announced their intention to provide substantial bilateral assistance. The IMF has indicated it will move quickly in assisting Poland to develop an overall economic

stabilization and reform program, and the World Bank is prepared to extend major new credits once an IMF program is in place.

Finally, in order to continue the dialogue with Poland's leaders that he began in July, the President is inviting President Jaruzelski and the new Prime Minister Mazowiecki to visit Washington at times convenient for each of them.

These are the steps the Administration has taken and will be taking in support of democratic change in Poland and Hungary: economic assistance conditioned upon real progress toward reform, business and technical assistance, the opening of investment and trade opportunities, and concerted Western action in conjunction with other industrialized democracies and the international financial institutions. These combined measures constitute an international recovery program that provides broad and substantial Western support for the historic changes now underway in Poland and Hungary.

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TO: AGENCIES

FROM: HUGHES

DOC DATE: 03 OCT 89
SOURCE REF:

KEYWORDS: POLAND NSC
ECONOMIC ASSISTANCE

PERSONS:

SUBJECT: DISCUSSION PAPER FOR NSC MTG ON 3 OCT RE POLAND

ACTION: GATES SGD MEMO TO AGENCIES DUE DATE: 09 MAR 90 STATUS: C

STAFF OFFICER: HUGHES LOGREF:

FILES: IFM C NSCP: NS003 CODES:

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E.O. 12958, SEC 3.4 (B) September 11, 2006
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FROM: SCOWCROFT

DOC DATE: 02 OCT 89
SOURCE REF:

KEYWORDS: POLAND ECONOMIC ASSISTANCE

PERSONS:

SUBJECT: ECONOMIC ASSISTANCE TO POLAND

ACTION: TRANSFERRED TO NSC LOG 8921573 DUE DATE: 05 OCT 89 STATUS: C

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NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

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October 3, 1989

MEMORANDUM FOR DR. CARNES LORD
Assistant to the Vice President
for National Security Affairs

COL GEORGE P. COLE
Executive Secretary
Department of Defense

MR. GARY EDSON
Chief of Staff
U.S. Trade Representative

MR. H. LAWRENCE SANDALL
Executive Secretary
Central Intelligence Agency

BG THOMAS E. WHITE, JR.
Executive Assistant to the Chairman
Joint Chiefs of Staff

MS. MOLLY HAGEBOECK
Chief of Staff
Agency for International Development

SUBJECT: Economic Assistance to Poland ~~(S)~~

Please pass the attached paper to your principal in preparation for today's 2:15 p.m. NSC meeting in the Cabinet Room on Poland. ~~(S)~~

G. Philip Hughes
Executive Secretary

Attachment
As stated

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E.O. 12958, SEC 3.4 (B) September 11, 2006
By [illegible] NARA, Date 09/11/09

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THE WHITE HOUSE
WASHINGTON

October 2, 1989

MEMORANDUM FOR THE SECRETARY OF STATE
THE SECRETARY OF THE TREASURY
THE SECRETARY OF DEFENSE
THE SECRETARY OF AGRICULTURE
THE SECRETARY OF COMMERCE
THE SECRETARY OF LABOR
THE DIRECTOR, OFFICE OF MANAGEMENT & BUDGET
THE CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS

SUBJECT: Economic Assistance to Poland ~~(S)~~

Attached is a revised version of the paper sent to you on September 29 which reflects your comments and suggestions. ~~(S)~~

Brent Scowcroft

Attachment
Tab A Poland's Economic Plight: An Evaluation

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E.O. 12958, SEC 3.4 (B) September 11, 2006
By NARA, Date 09/11/09

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Poland's Economic Plight: An Evaluation of the Proposed Reform Program and Possible U.S. Assistance Measures

Political and Economic Situation in Poland

The establishment of the first noncommunist government in Poland is truly historic. Prime Minister Mazowiecki has a chance to gain the public trust that is needed for the difficult economic steps ahead, but the honeymoon is undoubtedly of limited duration. The public is weary of chronic economic distress and the standard of living is actually lower today than 10 years ago. Any further significant decline in the economic well-being of the population would likely bring labor unrest and demands that could strangle incipient economic reforms. Mazowiecki's government is walking a treacherous path between hard-line communists who count on unrest to provide a pretext for a crackdown and radical workers who are determined to maintain the welfare state at whatever cost.

Economic reform will require a substantial overhaul of the government's management of the economy. The new Solidarity-led government must rein in inflation and secure worker tolerance, if not support, for tough measures that will affect them adversely. At a minimum, this will mean budgetary and enterprise financial discipline and replacement of Communist party-affiliated plant managers and economic officials, who lack managerial or technical expertise. In addition, the government must introduce incentives into the system, including encouragement of private enterprises; educate the public on the need for reform; and quickly get and maintain consensus within the government on the recently announced economic reform program.

Poland's Reform Program and the Requested Foreign Assistance

The reform program outlined by the new Finance Minister in meetings with senior U.S. officials calls for radical surgery. The plan envisions sharp reductions in the budget deficit, monetary growth and domestic credit; removal of price controls; devaluation of the zloty and movement toward convertibility; and policies designed to hold wage growth below inflation. Over the medium-term the government plans to eliminate restrictions on private sector activity; privatize large sectors of the state enterprise sector; reform the tax system; and create a stock exchange and private banks with foreign participation encouraged.

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To carry out the program, the Poles have requested foreign economic assistance in addition to an IMF program which the Poles hope to conclude toward year's end. The Poles want Western governments to: (a) provide $490 million in grants to cover a fourth quarter cash shortfall for 1989; (b) extend $1 billion in stabilization or stand-by loans in 1990; and (c) offer at least a three-year moratorium on official debt repayments.

Assessment of the Plan and Requested Assistance

The Polish economic situation is extremely complex and unique, involving both the problems of run away inflation and the difficulties of restructuring a nonmarket economy. Not only is the overall price level rising dramatically, requiring an economic stabilization program, but there is no recent history of appropriate relative prices. This necessitates a far-reaching structural adjustment plan. Relative prices will be critical, for example, in determining where to allocate investment.

Structural adjustment, involving the transition to a market economy, cannot take place in the midst of hyperinflation, so macroeconomic stabilization is a prerequisite for success of subsequent measures. The Polish stabilization plan is radical, but this is not unusual for a stabilization plan. While further details will need to be specified, the basic elements seem quite sensible.

There is concern that a radical stabilization will result in large (30 percent) reduction in real wages as wage indexation is removed and prices jump following a devaluation and further removal of price controls. The available data, which suggest that real wages have risen by more than 30 percent over the past year, are likely to overstate the current real wage level. Especially in urban areas, there are severe shortages of many goods. Stabilization and improvement in distribution could help urban workers, even if it resulted in a large measured real wage cut.

The Polish Plan calls for three types of foreign assistance:

(1) The requested $490 million would come in advance of an IMF stand-by and would need to be available in December. The Poles have arrived at the figure in the following way: They estimate that their fourth quarter cash shortfall will total $880 million. They are requesting $490 million to cover principal and interest due on unsecured debt and for imports of basic goods, including grain and pharmaceuticals. The remaining $390 would be covered by already announced

Western food assistance and deferral of interest payments on their London Club debt (commercial debt).

(2) The Poles want a $1 billion fund for currency stabilization. The money would have to be available in the January-March time-frame and would come after an IMF stand-by was negotiated. The fund might substantially improve the likelihood of successful economic stabilization. The amount is not excessive. A smaller amount will be less effective.

A currency stabilization fund would function primarily to strengthen the credibility of the authorities in implementing the comprehensive macroeconomic stabilization program. Such a program is designed to restore stability in the face of extreme inflationary pressures and a balance of payments crisis. The $1 billion lends credibility to the authorities' commitment to stable prices and a stable currency by enabling them to defend against speculative attacks. The very fact of a G-7 backed fund would build faith in the zloty. This may be a critical factor in the success of macroeconomic stabilization. For instance, the successful Israeli stabilization of 1985 included a U.S. currency stabilization loan of $1.5 billion over 2 years.

The money could be extended as loan or grant. Grants would probably be more effective since the West would then not add to Poland's heavy indebtedness. If the funds were not needed (if there were no run on the zloty), the grants could be used to augment the Enterprise Fund. This approach might also silence critics in Congress -- led by Paul Simon -- who wish to enhance the Enterprise Fund by $300 million per year over three years. We do, however, have the option of using loans for the stabilization fund.

The $1 billion figure for Poland represents the equivalent of about 2 months of Polish convertible currency imports. The size of the proposed fund relative to GDP is substantially smaller than the Israeli stabilization loan. The proposed loan to Poland is about 3.3 percent of GDP, while the loan to Israel was roughly 7.5 percent of GDP.

(3) The Polish Plan also calls for at least a 3-year moratorium on official debt repayments. The rationale is that Poland will require "time out" from transferring resources abroad so as to begin restructuring the economy. The resources can be used for investment domestically. A "time out" is likely to be an important component of getting the Polish economy on its feet. The United States has already indicated willingness to support early and generous

treatment of Polish debts in the Paris Club in advance of an IMF agreement.

The United States and other countries already have proposed a wide range of short term and longer term measures. However, many measures, for example, to encourage private investment, are unlikely to be successful without macroeconomic stabilization. Medium and longer-term measures should be supported and encouraged. As the Polish Plan recognizes, the first steps should focus on a well formulated macroeconomic stabilization program.

The U.S. Response

We need to act quickly to regain the initiative. The announcement by the President of expanded U.S. assistance would give the Poles hope and underscore our confidence in the new Polish government as it embarks on the painful path of economic reform. The House Foreign Affairs Committee intends to act Wednesday on both the Administration's pending Polish legislation and on a modified Simon-Cranston bill. If we do not counter with an effective legislative package of our own, the likely result will be adoption of a modified version of the Simon bill. Simon's bill has already been reported out of Senate Foreign Relations and is ready to go to the Senate floor. The following measures could constitute the U.S. response:

1. $200 Million Grant for Economic Stabilization

In response to Poland's request for a $1 billion stabilization fund the United States could offer $200 million in grants to promote longer-term economic growth in Poland. Such grants would be contingent upon Poland reaching agreement with the IMF, our Economic Summit partners joining us in reaching the $1 billion target for the fund, and the recommendation of the President's mission (see below). No U.S. resources would be disbursed from this stabilization fund until the experts' mission had reported to the President and we had coordinated use of the money with both the Polish Government and the G-24. One potential use of the fund would be to bolster Polish foreign currency reserves (balance of payments support) and provide a cushion against a collapse of the zloty. The advantages of such a grant are:

-- It responds to Poland's specific requests.
-- It would provide immediate economic support to the new Solidarity-led government as it attempts to implement economic reforms.

-- It would allow the Administration to regain the initiative from Congressional critics who favor more costly, but less focused aid measures.

The $490 million request is more problematic because the funds are required in advance of an IMF stand-by and cuts against our insistence on conditionality. The request might be handled through some combination of private sector contributions of funds for imports and public encouragement of commercial debt rescheduling.

2. Presidential Mission

In addition to the $200 million grant for stabilization purposes, the President could dispatch a high-level mission to Poland. Such a Presidential Mission would have both symbolic and substantive objectives. It would symbolize an enhanced U.S. commitment to assist Poland in the most effective way possible and demonstrate the President's continuing personal involvement. Substantively, its mandate would be to:

-- Contact economic leaders in the private and public sectors and further relationships already established by the visits of Secretary Mosbacher and the Agriculture Department to Poland;
-- Establish the cooperative framework for channeling U.S. expertise, public and private, into the sectors where it is needed most and likely to be most productive.
-- Coordinate this activity with the Polish stabilization program.
-- Establish mechanisms and organizational arrangements to facilitate the gathering of reliable data from which priorities for the sectors key to Poland's economic growth established and specific opportunities for technical assistance and investment of private capital can be identified;
-- Recommend a follow-through program with specific timelines and goals under which the appropriate experts will develop necessary data and identify specific technical assistance needs and investment opportunities.
-- Offer recommendations on how the $200 million provided by the U.S. as part of the stabilization funds might be spent most effectively.

The Mission would report to the President who would then brief Congress and selected world leaders and make his recommendations. It would also share its findings with the 24-nation Concerted Action Group. Either at the time of his statement outlining the new package or at the time that the

mission reports to him the President could announcement that he is naming a senior level U.S. Coordinator for Poland to coordinate follow-on activities. The Coordinator would be responsible for coordinating U.S. public and private sector efforts and be the main contact with Poland and other countries, relevant international organizations, the Congress, and the media.

The $200 million stabilization grant and the Presidential Mission focus on different issues, but they are actually closely interrelated. It is essential that the United States response be cast in a coordinated economy-wide perspective. The $200 million grant would provide for stability of prices which is essential if economic reforms at the micro level are to be successful. The important initiatives resulting from Secretary Mosbacher's mission -- new cooperative frameworks, private sector agreements, and follow-up investment missions -- which will be developed as part of the Presidential Mission will have a lasting impact only if overall economic stability is achieved. Moreover, reductions in real wages and changes in relative prices, which are likely to result from the indexation reforms and the stabilization effort, have important implications for how firm-specific or sector-specific cooperation might best take place. Experiences with market reforms in China and Chile in recent years suggest the potential for failure if the individual reforms are not coordinated and sequenced in a proper fashion.

Expertise provided by the proposed U.S. Coordinator and coming from his team on the ground in Poland would eventually provide for a proper integration of all parts of the program. But in the meantime, it is essential that the Presidential Mission focus on how macroeconomic stabilization efforts and likely relative price changes interact with the many promising individual initiatives that will result form the Mission.

In developing this program for U.S. assistance to Poland, we should not draw attention away from Hungary. Poland has reached a new stage of reform with the selection of a non-communist government, but Hungary is also in the midst of fundamental political and economic change. Multiparty elections will likely be held next year, and the Hungarians have long had the most market-oriented economy in Eastern Europe. We need to take account too of the Hungarian's recent decision to allow East German refugees to emigrate to the FRG -- a decision that strained Hungarian relations with its conservative Warsaw Pact allies. Hungary's economic problems are not as severe as Poland's and the difficulties are of a different character. Effective aid to Hungary may rest heavily on technical assistance and private investment -- though debt restructuring may be necessary at some point too. The Hungarians have already

developed an economic reform plan, and we should be prepared to respond after the elections next year.

Allied coordination is a key element of an effective Western assistance program for Poland and Hungary. In reasserting U.S. leadership we must be careful that our initiatives are cast not as "made in America" but as our contribution to the Western effort. The President sponsored the concept of concerted action at the Paris Summit and endorsed the G-24 meetings. The U.S. must not be seen as backing away from a concerted effort. When the President decides on our new package, he should send letters to his counterparts describing our new initiative and asking that they contribute to the $1 billion fund. We might also instruct U.S. ambassadors in allied capitals to reiterate the need for Western support of a Paris Club rescheduling and other elements of the President's extant program.

The President could make an announcement of the new package early this week. At that time, the President might also issue invitations to President Jaruzelski and Prime Minister Mazowiecki to visit the United States.

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U.S. REPRESENTATIVE TO UNITED NATIONS Room 6333, State Dept.				
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THE SECRETARY OF ENERGY GA257, Forrestal Bldg.				
DIRECTOR, AID Room 5942, Dept. of State	1	10-4-89	10:00	Zoen Hatcher
THE ATTORNEY GENERAL Dept. of Justice, Room 5119				
DIRECTOR, OSTP Room 360, OEOB				
DIRECTOR, USIA 400 C Street, S.W., Room 800				
THE SECRETARY OF THE INTERIOR 18th & E Street N.W., Room 6151				
THE SECRETARY OF AGRICULTURE Independence & 14th S.W., Room 200A	1			
UNITED STATES TRADE REPRESENTATIVE Room 209 Winder Bldg. 17 & F St. NW	1			
THE DIRECTOR, FEMA 1500 C Street, Room 828				
DIRECTOR, DMSPA Room 3E813, Pentagon				
THE SECRETARY OF TRANSPORTATION 400 7th Street S.W.				
MANAGER, NATL COMMUNICATIONS SYSTEM (NCS), Room 4125 8th & SO Courthouse Rd., Arlington, VA				
THE SECRETARY OF HHS 200 Independence Avenue, NW, Room 615F				
THE SECRETARY OF HUD 451 7th Street SW, Room 10000				
THE SECRETARY OF EDUCATION 400 Maryland Avenue, SW, Room 4181				

DATE, TIME & SIGN THIS RECEIPT & RETURN TO: WEST WING DESK, SITUATION ROOM, WHITE HOUSE

21212

NATIONAL SECURITY COUNCIL

NSC On Poland 10/3/89 1130

Brent --

I attach two alternative memos for the President. The first drafted here does not mention who the heads of the Presidential mission would be. The second, based on Dean Hoffmann's insistence, names those individuals.

Sorry to complicate your day.

Bob Blackwill

NATIONAL SECURITY COUNCIL

October 3, 1989

Brent,

Absent an understanding of which way you wanted to go re the leadership of the mission, we have attached two decision memoranda.

Deane

THE WHITE HOUSE
WASHINGTON

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PER E.O. 13526
2011-1420-MR
12/9/2013 MM

ACTION

MEMORANDUM FOR THE PRESIDENT

FROM: BRENT SCOWCROFT

SUBJECT: NSC Meeting on New Assistance for Poland

Purpose

To review a potential package of new assistance to Poland in response to the request of the new Mazowiecki government for aid.

Background

In addition to your meeting in New York with the Polish Foreign Minister, the Administration held extensive talks with the Polish Finance Minister last week and presented an outline for economic reform. The Poles now appear ready to implement a strict program of economic reform and intend to conclude negotiations with the IMF by the end of the year. They have asked the West to establish a $1 billion fund for economic stabilization -- available at the time that they implement reforms. Poland will request an additional $700 million from the IMF.

Poland has reached a critical stage in its process of economic and political reform. The Polish economic leadership has decided that they must institute radical, shock-treatment reforms now, during the Mazowiecki government's political honeymoon with the Polish population. The economic reform outline that Balcerowicz presented calls for immediate currency devaluation and rolling back wage-price indexation at the same time that price subsidies end. This radical free-market approach carries the danger of spiralling inflation (the current annual rate is already estimated to be in hundreds of percentage points) and a precipitous drop in the standard of living. This, in turn, increases the potential for massive strikes and labor unrest.

Clearly, the Poles calculate that a more gradual approach to economic reform, while less dangerous politically, will not get the job done and may be scaled back through a political process of bargaining with Solidarity's more radical wing. Already, the Balcerowicz plan has been criticized in Warsaw as too extreme and Lech Walesa -- trying to avoid a break with Solidarity's radicals -- has said that the plan could set up the conditions for civil war. The Balcerowicz plan is a crucial test for the political

cc: Vice President
Chief of Staff

consensus in Poland on the appropriate course for economic reform.

Balcerowicz has made a Western-backed stabilization fund a key element of his plan, saying that it will provide the incentive that Poland needs to accept IMF conditionality and the attendant program of radical reform. We have said repeatedly, as have our allies, that the West is prepared to assist the Poles when they demonstrate their willingness to accept tough and painful reforms. The Balcerowicz plan suggests that they are ready to do so.

The timing of our new assistance for Poland is driven by political pressure on the Hill as well. As you know Paul Simon has introduced a bill which would allocate $400 million per year over 3 years for the Enterprise Fund which we created. The Simon bill has two flaws from our point of view: the money would go into the Enterprise Fund which is for long-term economic development and does not respond to the Polish request for immediate stabilization assistance; and the money is to be taken from the R&D accounts of SDI. The House has been working on a more bipartisan basis and will introduce, probably today, a modified Simon bill which allocates far less money for the Enterprise Funds but still more than the Administration requested. This bill does not address the near-term Polish request either. We have had discussions Senate Republicans who are anxious to see the Administration regain the initiative and are prepared to introduce substitute legislation.

This NSC meeting will review a new package of assistance structured to try and meet both the needs of the Poles and the immediate political demands of the Hill. The package has two elements: a $200 million grant which would be the U.S. contribution to the West's $1 billion stabilization fund; and creation of a Presidential Experts' mission to formulate a program for the economic recovery of Poland. The new money would be available contingent upon:

(1) An agreement between Poland and the IMF, which the Polish government expects to conclude within three months,

(2) Recommendations of the Presidential Experts' Mission which would be dispatched to Poland within the next few weeks, and which would develop a plan for the specific uses of the $200 million, and

(3) The commitment of the "Group of 24" to provide the remaining $800 million, since the full amount is needed to make the stabilization fund concept effective. You would send letters to the G-7 asking them to contribute to the $1 billion stabilization fund. No U.S.

resources would be disbursed from this stabilization fund until the experts' mission had reported to the President and we had coordinated use of the money with both the Polish government and the G-24.

The Presidential Mission of economic and technical experts would also coordinate with experts from the G-24, and formulate a detailed program for the development of key sectors of the Polish economy, with specific timetables and goals, which will identify more precisely technical assistance priorities and investment opportunities.

Finally, there is the issue of whether there should be a U.S. government coordinator for assistance to Poland and Hungary. This senior official from in or outside the government would be responsible for the coherence of our assistance program.

RECOMMENDATION

That you review the package at Tab A.

Attachments
Tab A Talking Points
Tab B Concept Paper
Tab C List of Participants

THE WHITE HOUSE
WASHINGTON

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This NSC meeting will review a new package of assistance structured to try and meet both the needs of the Poles and the immediate political demands of the Hill. The package has two elements: a cabinet-level Presidential Experts' mission (perhaps headed by Yeutter, Mosbacher, Dole and Boskin) to formulate a program for the economic recovery of Poland; and a $200 million grant which would be the U.S. contribution to the West's $1 billion stabilization fund.

(1) An agreement between Poland and the IMF, which the Polish government expects to conclude within three months,

(2) Recommendations of the Presidential Experts' Mission which would be dispatched to Poland within the next few weeks, and which would develop a plan for the specific uses of the $200 million, and

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RECOMMENDATION

That you review the package at Tab A.

Attachments
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~~SECRET~~

Poland's Economic Plight: An Evaluation of the Proposed Reform Program and Possible U.S. Assistance Measures

Political and Economic Situation in Poland

The establishment of the first noncommunist government in Poland is truly historic. Prime Minister Mazowiecki has a chance to gain the public trust that is needed for the difficult economic steps ahead, but the honeymoon is undoubtedly of limited duration. The public is weary of chronic economic distress and the standard of living is actually lower today than 10 years ago. Any further significant decline in the economic well-being of the population would likely bring labor unrest and demands that could strangle incipient economic reforms. Mazowiecki's government is walking a treacherous path between hard-line communists who count on unrest to provide a pretext for a crackdown and radical workers who are determined to maintain the welfare state at whatever cost.

Economic reform will require a substantial overhaul of the government's management of the economy. The new Solidarity-led government must rein in inflation and secure worker tolerance, if not support, for tough measures that will affect them adversely. At a minimum, this will mean budgetary and enterprise financial discipline and replacement of Communist party-affiliated plant managers and economic officials, who lack managerial or technical expertise. In addition, the government must introduce incentives into the system, including encouragement of private enterprises; educate the public on the need for reform; and quickly get and maintain consensus within the government on the recently announced economic reform program.

Poland's Reform Program and the Requested Foreign Assistance

The reform program outlined by the new Finance Minister in meetings with senior U.S. officials calls for radical surgery. The plan envisions sharp reductions in the budget deficit, monetary growth and domestic credit; removal of price controls; devaluation of the zloty and movement toward convertibility; and policies designed to hold wage growth below inflation. Over the medium-term the government plans to eliminate restrictions on private sector activity; privatize large sectors of the state enterprise sector; reform the tax system; and create a stock exchange and private banks with foreign participation encouraged.

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To carry out the program, the Poles have requested foreign economic assistance in addition to an IMF program which the Poles hope to conclude toward year's end. The Poles want Western governments to: (a) provide $490 million in grants to cover a fourth quarter cash shortfall for 1989; (b) extend $1 billion in stabilization or stand-by loans in 1990; and (c) offer at least a three-year moratorium on official debt repayments.

Assessment of the Plan and Requested Assistance

The Polish economic situation is extremely complex and unique, involving both the problems of run away inflation and the difficulties of restructuring a nonmarket economy. Not only is the overall price level rising dramatically, requiring an economic stabilization program, but there is no recent history of appropriate relative prices. This necessitates a far-reaching structural adjustment plan. Relative prices will be critical, for example, in determining where to allocate investment.

Structural adjustment, involving the transition to a market economy, cannot take place in the midst of hyperinflation, so macroeconomic stabilization is a prerequisite for success of subsequent measures. The Polish stabilization plan is radical, but this is not unusual for a stabilization plan. While further details will need to be specified, the basic elements seem quite sensible.

There is concern that a radical stabilization will result in large (30 percent) reduction in real wages as wage indexation is removed and prices jump following a devaluation and further removal of price controls. The available data, which suggest that real wages have risen by more than 30 percent over the past year, are likely to overstate the current real wage level. Especially in urban areas, there are severe shortages of many goods. Stabilization and improvement in distribution could help urban workers, even if it resulted in a large measured real wage cut.

The Polish Plan calls for three types of foreign assistance:

(1) The requested $490 million would come in advance of an IMF stand-by and would need to be available in December. The Poles have arrived at the figure in the following way: They estimate that their fourth quarter cash shortfall will total $880 million. They are requesting $490 million to cover principal and interest due on unsecured debt and for imports of basic goods, including grain and pharmaceuticals. The remaining $390 would be covered by already announced

Western food assistance and deferral of interest payments on their London Club debt (commercial debt).

(2) The Poles want a $1 billion fund for currency stabilization. The money would have to be available in the January-March time-frame and would come after an IMF stand-by was negotiated. The fund might substantially improve the likelihood of successful economic stabilization. The amount is not excessive. A smaller amount will be less effective.

A currency stabilization fund would function primarily to strengthen the credibility of the authorities in implementing the comprehensive macroeconomic stabilization program. Such a program is designed to restore stability in the face of extreme inflationary pressures and a balance of payments crisis. The $1 billion lends credibility to the authorities' commitment to stable prices and a stable currency by enabling them to defend against speculative attacks. The very fact of a G-7 backed fund would build faith in the zloty. This may be a critical factor in the success of macroeconomic stabilization. For instance, the successful Israeli stabilization of 1985 included a U.S. currency stabilization loan of $1.5 billion over 2 years.

The money could be extended as loan or grant. Grants would probably be more effective since the West would then not add to Poland's heavy indebtedness. If the funds were not needed (if there were no run on the zloty), the grants could be used to augment the Enterprise Fund. This approach might also silence critics in Congress -- led by Paul Simon -- who wish to enhance the Enterprise Fund by $300 million per year over three years. We do, however, have the option of using loans for the stabilization fund.

The $1 billion figure for Poland represents the equivalent of about 2 months of Polish convertible currency imports. The size of the proposed fund relative to GDP is substantially smaller than the Israeli stabilization loan. The proposed loan to Poland is about 3.3 percent of GDP, while the loan to Israel was roughly 7.5 percent of GDP.

(3) The Polish Plan also calls for at least a 3-year moratorium on official debt repayments. The rationale is that Poland will require "time out" from transferring resources abroad so as to begin restructuring the economy. The resources can be used for investment domestically. A "time out" is likely to be an important component of getting the Polish economy on its feet. The United States has already indicated willingness to support early and generous

treatment of Polish debts in the Paris Club in advance of an IMF agreement.

The United States and other countries already have proposed a wide range of short term and longer term measures. However, many measures, for example, to encourage private investment, are unlikely to be successful without macroeconomic stabilization. Medium and longer-term measures should be supported and encouraged. As the Polish Plan recognizes, the first steps should focus on a well formulated macroeconomic stabilization program.

The U.S. Response

We need to act quickly to regain the initiative. The announcement by the President of expanded U.S. assistance would give the Poles hope and underscore our confidence in the new Polish government as it embarks on the painful path of economic reform. The House Foreign Affairs Committee intends to act Wednesday on both the Administration's pending Polish legislation and on a modified Simon-Cranston bill. If we do not counter with an effective legislative package of our own, the likely result will be adoption of a modified version of the Simon bill. Simon's bill has already been reported out of Senate Foreign Relations and is ready to go to the Senate floor. The following measures could constitute the U.S. response:

1. $200 Million Grant for Economic Stabilization

In response to Poland's request for a $1 billion stabilization fund the United States could offer $200 million in grants to promote longer-term economic growth in Poland. Such grants would be contingent upon Poland reaching agreement with the IMF, our Economic Summit partners joining us in reaching the $1 billion target for the fund, and the recommendation of the President's mission (see below). No U.S. resources would be disbursed from this stabilization fund until the experts' mission had reported to the President and we had coordinated use of the money with both the Polish Government and the G-24. One potential use of the fund would be to bolster Polish foreign currency reserves (balance of payments support) and provide a cushion against a collapse of the zloty. The advantages of such a grant are:

-- It responds to Poland's specific requests.
-- It would provide immediate economic support to the new Solidarity-led government as it attempts to implement economic reforms.

-- It would allow the Administration to regain the initiative from Congressional critics who favor more costly, but less focused aid measures.

The $490 million request is more problematic because the funds are required in advance of an IMF stand-by and cuts against our insistence on conditionality. The request might be handled through some combination of private sector contributions of funds for imports and public encouragement of commercial debt rescheduling.

2. Presidential Mission

In addition to the $200 million grant for stabilization purposes, the President could dispatch a high-level mission to Poland. Such a Presidential Mission would have both symbolic and substantive objectives. It would symbolize an enhanced U.S. commitment to assist Poland in the most effective way possible and demonstrate the President's continuing personal involvement. Substantively, its mandate would be to:

-- Contact economic leaders in the private and public sectors and further relationships already established by the visits of Secretary Mosbacher and the Agriculture Department to Poland;
-- Establish the cooperative framework for channeling U.S. expertise, public and private, into the sectors where it is needed most and likely to be most productive.
-- Coordinate this activity with the Polish stabilization program.
-- Establish mechanisms and organizational arrangements to facilitate the gathering of reliable data from which priorities for the sectors key to Poland's economic growth established and specific opportunities for technical assistance and investment of private capital can be identified;
-- Recommend a follow-through program with specific timelines and goals under which the appropriate experts will develop necessary data and identify specific technical assistance needs and investment opportunities.
-- Offer recommendations on how the $200 million provided by the U.S. as part of the stabilization funds might be spent most effectively.

The Mission would report to the President who would then brief Congress and selected world leaders and make his recommendations. It would also share its findings with the 24-nation Concerted Action Group. Either at the time of his statement outlining the new package or at the time that the

mission reports to him the President could announce that he is naming a senior level U.S. Coordinator for Poland to coordinate follow-on activities. The Coordinator would be responsible for coordinating U.S. public and private sector efforts and be the main contact with Poland and other countries, relevant international organizations, the Congress, and the media.

The $200 million stabilization grant and the Presidential Mission focus on different issues, but they are actually closely interrelated. It is essential that the United States response be cast in a coordinated economy-wide perspective. The $200 million grant would provide for stability of prices which is essential if economic reforms at the micro level are to be successful. The important initiatives resulting from Secretary Mosbacher's mission -- new cooperative frameworks, private sector agreements, and follow-up investment missions -- which will be developed as part of the Presidential Mission will have a lasting impact only if overall economic stability is achieved. Moreover, reductions in real wages and changes in relative prices, which are likely to result from the indexation reforms and the stabilization effort, have important implications for how firm-specific or sector-specific cooperation might best take place. Experiences with market reforms in China and Chile in recent years suggest the potential for failure if the individual reforms are not coordinated and sequenced in a proper fashion.

Expertise provided by the proposed U.S. Coordinator and coming from his team on the ground in Poland would eventually provide for a proper integration of all parts of the program. But in the meantime, it is essential that the Presidential Mission focus on how macroeconomic stabilization efforts and likely relative price changes interact with the many promising individual initiatives that will result form the Mission.

In developing this program for U.S. assistance to Poland, we should not draw attention away from Hungary. Poland has reached a new stage of reform with the selection of a non-communist government, but Hungary is also in the midst of fundamental political and economic change. Multiparty elections will likely be held next year, and the Hungarians have long had the most market-oriented economy in Eastern Europe. We need to take account too of the Hungarian's recent decision to allow East German refugees to emigrate to the FRG -- a decision that strained Hungarian relations with its conservative Warsaw Pact allies. Hungary's economic problems are not as severe as Poland's and the difficulties are of a different character. Effective aid to Hungary may rest heavily on technical assistance and private investment -- though debt restructuring may be necessary at some point too. The Hungarians have already

developed an economic reform plan, and we should be prepared to respond after the elections next year.

Allied coordination is a key element of an effective Western assistance program for Poland and Hungary. In reasserting U.S. leadership we must be careful that our initiatives are cast not as "made in America" but as our contribution to the Western effort. The President sponsored the concept of concerted action at the Paris Summit and endorsed the G-24 meetings. The U.S. must not be seen as backing away from a concerted effort. When the President decides on our new package, he should send letters to his counterparts describing our new initiative and asking that they contribute to the $1 billion fund. We might also instruct U.S. ambassadors in allied capitals to reiterate the need for Western support of a Paris Club rescheduling and other elements of the President's extant program.

The President could make an announcement of the new package early this week. At that time, the President might also issue invitations to President Jaruzelski and Prime Minister Mazowiecki to visit the United States.

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POINTS TO BE MADE IN THE NSC MEETING
ON NEW ASSISTANCE TO POLAND

-- Events in Poland have moved faster than any of us would have guessed.

-- I am interested in hearing what we might be able to do to support the new Mazowiecki Government.

-- I would like to ask Brent to lead our discussion of a potential new economic assistance package for Poland.

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PARTICIPANTS

The President
The Vice President
James A. Baker, Secretary of State
John H. Sununu, Chief of Staff
Brent Scowcroft,
Assistant to the President for National Security Affairs
Robert M. Gates,
Assistant to the President and Deputy for National Security Affairs
Nicholas Brady, Secretary of Treasury
Dick Cheney, Secretary of Defense
Clayton Yeuter, Secretary of Agriculture
Robert Mosbacher, Secretary of Commerce
Elizabeth Dole, Secretary of Labor
Richard Darmon, Director, Office of Management and Budget
Ambassador Carla Hill, United States Trade Representative
Michael Boskin, Secretary, Council of Economic Advisors
General Colin Powell, Chairman, Joint Chiefs of Staff
Mark Edelman, Agency for International Development
Richard Kerr, Central Intelligence Agency
Robert D. Blackwill, NSC Notetaker

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TALKING POINTS FOR BRENT SCOWCROFT FOR NSC MEETING

-- This is a critical phase in Poland's economic and political reform process.

-- I do not think any of us disagree about the historic significance of the formation for the first non-communist government in Eastern Europe in the post-war period.

-- Poland has been the strategic linchpin in Soviet military and political domination of Eastern Europe.

-- The President has pledged U.S. support to the Polish reform process but we have said that Poland has to agree to tough and painful economic reform measures.

-- We now have an outline of the Polish economic reform plan, which while many details still need to be worked out, takes Poland in the direction of rapid, even radical, free-market reforms.

-- The Poles have decided to take the shock up front. The economic leadership has decided to use the political honeymoon of the Mazowiecki government with the Polish population to institute tough economic reforms.

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-- The radical free-market approach has dangers, including further fueling of inflation and a precipitous drop in the standard of living.

-- Already more radical elements of Solidarity and even Lech Walesa have criticized the plan as too extreme.

-- Balcerowicz has made Western assistance a key to his plan, expecting it to provide an incentive for Poland to accept conditionality.

-- The Poles have requested a $1 billion stabilization fund from the West. They want the money to be available at the time that they sign an IMF agreement and institute the reforms. This should be thought of as assistance to help them through the shock of the first stages of macroeconomic reform.

-- Our first measure would respond directly to this request. The President would announce new U.S. assistance in the amount of a $200 million grant as the American contribution to the $1 billion Western stabilization fund.

-- The assistance would be conditional on:

  -- Poland and the IMF reach agreement on a Fund program.

-- Recommendations of the Presidential Experts' Mission for use of the $200 million had been made known to the President.

-- The G-24 agrees to provide the remaining $800 million.

-- No U.S. resources would be disbursed from this stabilization fund until the experts' mission had reported to the President and we had coordinated use of the money with both the Polish government and the G-24.

-- Second, we could dispatch a Presidential experts' mission to Poland which would coordinate with experts from the G-24 to formulate a detailed program for economic recovery in Poland.

-- The mission would, as noted above, also recommend specific uses of the $200 million stabilization money.

-- Third, the U.S.G. might appoint a coordinator who would be responsible for ensuring coherence of our assistance program.

-- There is also pressure on the Hill to do more for Poland. I have been up on the Hill to talk with Senate Republicans and, yesterday, with a bipartisan House group.

-- The Simon bill on the Senate side would put more money into the enterprise fund which is for long-term economic

development -- and would not be responsive to the Polish request for near-term stabilization assistance.

-- Simon also takes the money out of SDI R&D funds.

-- The House version of the bill cuts down Simon's $400 million over three years -- but is still more money than we want to allocate and does not respond to the Polish request either.

-- There is no conditionality in either the Simon or House bills.

-- Senate Republicans are anxious to see the Administration re-take the initiative.

PHDEM001

HLC

[DISCUSSION DRAFT]
September 28, 1989: 6:00 PM

101ST CONGRESS
1ST SESSION

H. R. ____

IN THE HOUSE OF REPRESENTATIVES

Mr. _____ (for himself,) introduced the following bill; which was referred to the Committee on _____

A BILL

To promote political and economic change in Eastern Europe, and to assist Poland and Hungary as they move toward pluralism and democracy and develop and implement programs of comprehensive economic reform.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE AND TABLE OF CONTENTS.

(a) SHORT TITLE.--This Act may be cited as the ``_____ Act of 1989''.

(b) TABLE OF CONTENTS.--The table of contents for this Act is as follows:

Sec. 1. Short title and table of contents.

TITLE I--STRUCTURAL ADJUSTMENT

Sec. 101. Multilateral support for structural adjustment in Poland and Hungary.
Sec. 102. Report to Congress.

TITLE II--PRIVATE SECTOR DEVELOPMENT

Sec. 201. Enterprise Funds for Poland and Hungary.
Sec. 202. Labor market transition in Poland and Hungary.
Sec. 203. Technical training for private sector development in Poland and Hungary.
Sec. 204. Use of Polish currency generated by agricultural assistance.

TITLE III--TRADE AND INVESTMENT

Sec. 301. Eligibility of Poland for Generalized System of Preferences.
Sec. 302. Overseas Private Investment Corporation programs for Poland and Hungary.
Sec. 303. Export-Import Bank programs for Poland and Hungary.
Sec. 304. Trade Credit Insurance Program for Poland and Hungary.
Sec. 305. Trade and Development programs for Poland and Hungary.
Sec. 306. Bilateral investment treaties with Poland and Hungary.

TITLE IV--EDUCATIONAL, CULTURAL, AND SCIENTIFIC ACTIVITIES

Sec. 401. Educational and cultural exchanges and sister institutions programs with Poland and Hungary.
Sec. 402. Poland-Hungary scholarship partnership.
Sec. 403. Science and technology exchange with Poland.

TITLE V--OTHER ASSISTANCE

Sec. 501. Assistance in support of democratic institutions in Poland and Hungary.
Sec. 502. Environmental initiatives for Poland and Hungary.
Sec. 503. Medical supplies, hospital equipment, and medical training for Poland.

TITLE VI--MISCELLANEOUS PROVISONS

Sec. 601. Annual reports to Congress.
Sec. 602. Role of Secretary of State.

TITLE I--STRUCTURAL ADJUSTMENT

SEC. 101. MULTILATERAL SUPPORT FOR STRUCTRUAL ADJUSTMENT IN POLAND AND HUNGARY.

(a) ACTIONS BY THE UNITED STATES.--To the extent that Poland and Hungary continue to evolve toward pluralism and democracy and to develop and implement comprehensive economic reform programs--

(1) the United States Government shall take the leadership in mobilizing international financial institutions (in particular the International Monetary Fund and the International Bank for Reconstruction and Development and its affiliated institutions in the World Bank group) to provide timely and appropriate resources to help Poland and Hungary;

(2) the United States Government shall use the Exchange Stabilization Fund (provided for in section 5302 of title 31, United States Code), in conjunction with other member governments of the Organization of Economic Cooperation and Development (OECD) and international

financial institutions, to support the implementation of a plan of the Government of Poland to attack hyperinflation and other structural economic problems, address pressing social problems, and carry out comprehensive economic reform;

(3) the United States Government--

(A) shall urge all members of the ``Paris Club'' of creditor governments and other creditor governments to adopt a generous and early rescheduling program for debts owed by the Government of Poland, and

(B) in coordination with other creditor governments, shall reschedule payments due on the debt owed by the Government of Poland to the United States Government and payable during fiscal years 1990 through 1994; and

(4) the United States Government--

(A) shall make available to Poland, in coordination with the European Community, United States agricultural assistance to alleviate immediate food shortages and to facilitate the transition from state-directed controls to a free market economy, while avoiding disincentives to domestic agricultural production and reform; and

(B) in order to ensure the necessary quantity and

diversity of such agricultural assistance, shall take all appropriate steps to encourage parallel efforts by the European Community and other agricultural surplus nations.

(b) FY1990 LEVEL OF AGRICULTURAL ASSISTANCE FOR POLAND.--In carrying out subsection (a)(4)(A), the level of assistance for Poland for fiscal year 1990 under section 416(b) of the Agricultural Act of 1949 (7 U.S.C. 1431(b)) and under the Agricultural Trade Development and Assistance Act of 1954 (7 U.S.C. 1691 and following) shall not be less than $125,000,000. Such assistance shall emphasize feed grains.

SEC. 102. REPORT TO CONGRESS.

Not later than 60 days after the date of enactment of this Act, the President shall submit a report to the Congress--

(1) describing the steps taken by the United States Government pursuant to section 101;

(2) assessing Poland's requirements for additional agricultural assistance during fiscal year 1990 and its requirements for agricultural assistance during fiscal years 1991 and 1992; and

(3) specifying how much agricultural assistance the President proposes be provided by the United States to meet those requirements.

TITLE II--PRIVATE SECTOR DEVELOPMENT

SEC. 201. ENTERPRISE FUNDS FOR POLAND AND HUNGARY.

(a) PURPOSES.--The purposes of this section are to--

(1) promote development of the Polish and Hungarian private sectors, including small businesses and joint ventures with United States and host country participants; and

(2) promote policies and practices conducive to private sector development in Poland and Hungary, through loans, grants, equity investments, feasibility studies, technical assistance, training, insurance, guarantees, and other measures.

(b) AUTHORIZATION OF APPROPRIATIONS.--To carry out the purposes specified in subsection (a), there are authorized to be appropriated to the President for the 3-year period beginning October 1, 1989--

(1) $160,000,000 to support the Polish-American Enterprise Fund, as designated pursuant to subsection (d); and

(2) $40,000,000 to support the Hungarian-American Enterprise Fund, as designated pursuant to subsection (d).

Such amounts are authorized to be made available until expended.

(c) USE OF FUNDS.--The funds appropriated under subsection (b) may be made available to the Polish-American

Enterprise Fund and the Hungarian-American Enterprise Fund and used for the purposes of this section notwithstanding any other provision of law.

(d) DESIGNATION OF ENTERPRISE FUNDS.--

(1) DESIGNATION.--The President is authorized to designate two private, nonprofit organizations as eligible to receive funds and support pursuant to this section upon determining that such organizations have been established for the purposes specified in subsection (a). For purposes of this section, the organizations so designated shall be referred to as the Polish-American Enterprise Fund and the Hungarian-American Enterprise Fund (hereafter in this section referred to as the ``Enterprise Funds'').

(2) CONSULTATION WITH CONGRESS.--The President shall consult with the leadership of each House of Congress before designating an organization pursuant to paragraph (1).

(3) BOARD OF DIRECTORS.--Each Enterprise Fund shall be governed by a Board of Directors comprised of private citizens of the United States and the respective host country who have demonstrated experience and expertise in those areas of private sector development in which the Enterprise Fund is involved.

(4) ELIGIBILITY OF ENTERPRISE FUNDS FOR

GRANTS.--Grants may be made to an Enterprise Fund under this section only if the Enterprise Fund agrees to comply with the requirements specified in this section.

(5) PRIVATE CHARACTER OF ENTERPRISE FUNDS.--Nothing in this section shall be construed to make an Enterprise Fund an agency or establishment of the United States Government, or to make the officers, employees, or members of the Board of Directors of an Enterprise Fund officers or employees of the United States for purposes of title 5, United States Code.

(e) GRANTS TO ENTERPRISE FUNDS.--Funds appropriated to the President pursuant to subsection (b) shall be granted to the Enterprise Funds by the Agency for International Development (hereafter in this section referred to as the ''Agency'')--

(1) to enable the Enterprise Funds to carry out the purposes specified in subsection (a), taking into account such considerations as internationally recognized worker rights and other internationally recognized human rights, environmental factors, United States economic and employment effects, and the likelihood of commercial viability of the activity receiving assistance from the Enterprise Funds; and

(2) for the administrative expenses of each Enterprise Fund.

(f) RETENTION OF INTEREST.--An Enterprise Fund may hold funds granted to it pursuant to subsection (e) in interest-bearing accounts, prior to the disbursement of such funds for purposes specified in subsection (a), and may retain for such program purposes any interest earned on such deposits without returning such interest to the Treasury of the United States and without further appropriation by the Congress.

(g) USE OF CERTAIN FUNDS FOR AID ADMINISTRATIVE FUNCTIONS.--The Agency may, notwithstanding any other provision of law, use up to $300,000 in each fiscal year of funds from such program account or accounts of the Agency as the Agency may determine for the purpose of carrying out functions under this section.

(h) NONAPPLICABILITY OF OTHER LAWS.--Executive agencies may conduct programs and activities and provide services in support of the activities of the Enterprise Funds notwithstanding any other provision of law.

(i) ELIGIBLE PROGRAMS AND PROJECTS.--The Enterprise Funds may provide assistance pursuant to this section only for programs and projects which are consistent with the purposes set forth in subsection (a).

(j) LIMITATION ON PAYMENTS TO ENTERPRISE FUND PERSONNEL.--No part of the funds of either Enterprise Fund shall inure to the benefit of any board member, officer, or employee of such Enterprise Fund, except as salary or

reasonable compensation for services.

(k) INDEPENDENT PRIVATE AUDITS.--The accounts of each Enterprise Fund shall be audited annually in accordance with generally accepted auditing standards by independent certified public accountants or independent licensed public accountants certified or licensed by a regulatory authority of a State or other political subdivision of the United States. The report of each such independent audit shall be included in the annual report required by subsection (n).

(l) GAO AUDITS.--The financial transactions undertaken pursuant to this section by each Enterprise Fund may be audited by the General Accounting Office in accordance with such principles and procedures and under such rules and regulations as may be prescribed by the Comptroller General of the United States, so long as the Enterprise Fund is in receipt of United States Government grants.

(m) RECORDKEEPING REQUIREMENTS.--The Enterprise Funds shall ensure--

(1) that each recipient of assistance provided through the Enterprise Funds under this section keeps--

(A) separate accounts with respect to such assistance;

(B) such records as may be reasonably necessary to disclose fully the amount and the disposition by such recipient of the proceeds of such assistance,

the total cost of the project or undertaking in connection with which such assistance is given or used, and the amount and nature of that portion of the cost of the project or undertaking supplied by other sources; and

(C) such other records as will facilitate an effective audit; and

(2) that the Enterprise Funds, or any of their duly authorized representatives, have access for the purpose of audit and examination to any books, documents, papers, and records of the recipient that are pertinent to assistance provided through the Enterprise Funds under this section.

(n) ANNUAL REPORTS.--Not later than March 31 of each year, each Enterprise Fund shall publish an annual report for the preceding fiscal year. The report shall include a comprehensive and detailed report of the concerned Enterprise Fund's operations, activities, financial condition, and accomplishments under this section.

SEC. 202. LABOR MARKET TRANSITION IN POLAND AND HUNGARY.

(a) TECHNICAL ASSISTANCE.--The Secretary of Labor (hereafter in this section referred to as the ''Secretary''), in consultation with representatives of labor and business in the United States, shall--

(1) provide technical assistance to Poland and

Hungary for the implementation of labor market reforms; and

(2) provide technical assistance to Poland and Hungary to facilitate adjustment during the period of economic transition and reform.

(b) AUTHORITIES OF THE SECRETARY OF LABOR.--In carrying out the responsibilities enumerated in subsection (a), the Secretary is authorized to do the following:

(1) Provide technical assistance regarding policies and programs for training and retraining, job search and employment services, unemployment insurance, occupational safety and health protection, labor-management relations, labor statistics, analysis of productivity constraints, entrepreneurial support for small businesses, market-driven systems of wage and income determinations, job creation, employment security, the observance of internationally recognized worker rights (including freedom of association and the right to organize and bargain collectively), and other matters that the Secretary may deem appropriate regarding free labor markets and labor organizations.

(2)(A) Accept in the name of the Department of Labor, and employ or dispose of in furtherance of the purposes of this section, any money or property, real, personal, or mixed, tangible or intangible, received by gift,

devise, bequest, or otherwise. Gifts and donations of property which are no longer required for the discharge of the purposes of this section shall be reported to the Administrator of General Services for transfer, donation, or other disposal in accordance with the Federal Property and Administrative Services Act of 1949 (40 U.S.C. 471 and following).

(B) Accept voluntary and uncompensated services notwithstanding section 1342 of title 31, United States Code.

(3) Enter into arrangements or agreements with appropriate departments, agencies, and establishments of Poland and Hungary.

(4) Enter into arrangements or agreements with appropriate private and public sector United States parties, and international organizations.

(c) CONSULTATION WITH APPROPRIATE OFFICERS.--In carrying out the responsibilities established by this section, the Secretary shall seek information and advice from, and consult with, appropriate officers of the United States.

(d) CONSULTATION WITH LABOR AND BUSINESS REPRESENTATIVES.--For purposes of this section, consultation between the Secretary and United States labor and business representatives shall not be subject to the Federal Advisory Committee Act (5 U.S.C. App.).

(e) DELEGATION OF RESPONSIBILITIES.--The Secretary shall delegate the authority to carry out the programs authorized by this section to the head of the Bureau of International Labor Affairs of the Department of Labor.

(f) AUTHORIZATION OF APPROPRIATIONS.--There are authorized to be appropriated to the Department of Labor for the 3-year period beginning October 1, 1989, to carry out this section--

(1) $4,000,000 for technical assistance to Poland; and

(2) $1,000,000 for technical assistance to Hungary.

SEC. 203. TECHNICAL TRAINING FOR PRIVATE SECTOR DEVELOPMENT IN POLAND AND HUNGARY.

(a) TECHNICAL TRAINING PROGRAM.--The United States Government shall develop and implement a program for extending basic agribusiness, commercial, entrepreneurial, financial, scientific, and technical skills to the people of Poland and Hungary to enable them to better meet their needs and develop a market economy. This program shall include management training and agricultural extension activities.

(b) PARTICIPATING AGENCIES, PROGRAMS, AND ORGANIZATIONS.--In carrying out subsection (a), the United States Government shall utilize (in addition to other appropriate agencies, programs, and organizations)--

(1) the Agency for International Development,

(2) the Peace Corps,

(3) the Farmer-to-Farmer Program under section 406(a)(1) and (2) of the Agricultural Trade Development and Assistance Act of 1954 (7 U.S.C. 1736(a)(1) and (2)),

(4) the International Executive Service Corps,

(5) the Foundation for the Development of Polish Agriculture, and

(6) other United States, Polish, and Hungarian private and voluntary organizations and private sector entities.

(c) NONAPPLICABILITY OF OTHER PROVISIONS OF LAW.--Assistance provided pursuant to subsection (a) under the authorities of part I of the Foreign Assistance Act of 1961 may be provided notwithstanding any other provision of law.

(d) FUNDING.--

(1) AUTHORIZATION OF APPROPRIATIONS.--For purposes of implementing this section, there are authorized to be appropriated $10,000,000 for the 3-year period beginning October 1, 1989, to carry out chapter 1 of part I of the Foreign Assistance Act of 1961 (22 U.S.C. 2151 and following; relating to development assistance), in addition to amounts otherwise available for such purposes.

(2) TRANSFER OF FUNDS TO PEACE CORPS.--The

Administrator of the Agency for International Development may transfer funds appropriated under paragraph (1) to the Peace Corps for use by the Peace Corps in carrying out this section.

SEC. 204. USE OF POLISH CURRENCY GENERATED BY AGRICULTURAL ASSISTANCE.

(a) ADDITIONAL ASSISTANCE.--In order to complement the assistance authorized by section 101(a)(4)(A), section 201, and section 203 of this Act, agricultural commodities made available for Poland under section 416(b) of the Agricultural Act of 1949 (7 U.S.C. 1431(b)) and under the Agricultural Trade Development and Assistance Act of 1954 (7 U.S.C. 1691 and following) shall be made available and sold or bartered to generate local currencies, notwithstanding the requirements of section 416(b)(7) of the Agricultural Act of 1949 or any other provision of law, as follows:

(1) AGRICULTURAL ASSISTANCE.--A portion of such commodities shall be sold or bartered to generate local currencies for use in purchasing farm implements and spare parts for farm machinery, constructing storage facilities for agricultural commodities, improving marketing for agricultural commodities, and otherwise developing the agricultural infrastructure in Poland.

(2) ENTERPRISE FUND.--A portion of such commodities shall be made available to, or for the benefit of, the

Polish-American Enterprise Fund designated pursuant to section 201(d) for sale or barter to generate local currencies to be used by the Enterprise Fund for the purposes stated in section 201(a). The requirements of section 201 apply to local currencies made available to the Enterprise Funds under this paragraph.

(3) TECHNICAL TRAINING PROGRAM.--A portion of such commodities shall be sold or bartered to generate local currencies for use in implementing the technical training program provided for in section 203.

(b) OTHER USES.--The uses of agricultural commodities and local currencies specified in subsection (a) are in addition to other uses authorized by law.

TITLE III--TRADE AND INVESTMENT

SEC. 301. ELIGIBILITY OF POLAND FOR GENERALIZED SYSTEM OF PREFERENCES.

Subsection (b) of section 502 of the Trade Act of 1974 (19 U.S.C. 2462(b)) is amended by striking out ''Poland'' in the table within such subsection.

SEC. 302. OVERSEAS PRIVATE INVESTMENT CORPORATION PROGRAMS FOR POLAND AND HUNGARY.

(a) ELIGIBILITY OF POLAND AND HUNGARY FOR OPIC PROGRAMS.--Section 239(f) of the Foreign Assistance Act of 1961 (22 U.S.C. 2199(f)) is amended by inserting '', Poland, Hungary,'' after ''Yugoslavia''.

(b) ENHANCEMENT OF NONGOVERNMENTAL SECTOR.--In accordance with its mandate to foster private initiative and competition and enhance the ability of private enterprise to make its full contribution to the development process, the Overseas Private Investment Corporation shall support projects in Poland and Hungary which will result in enhancement of the nongovernmental sector and reduction of state involvement in the economy.

SEC. 303. EXPORT-IMPORT BANK PROGRAMS FOR POLAND AND HUNGARY.

SEC. 304. TRADE CREDIT INSURANCE PROGRAM FOR POLAND AND HUNGARY.

SEC. 305. TRADE AND DEVELOPMENT PROGRAMS FOR POLAND AND HUNGARY.

In order to permit expansion of the Trade and Development Program into Poland and Hungary, there are authorized to be appropriated $6,000,000 for the 3-year period beginning October 1, 1989, to carry out section 661 of the Foreign Assistance Act of 1961 (22 U.S.C. 2241), in addition to amounts otherwise available for such purpose.

SEC. 306. BILATERAL INVESTMENT TREATIES WITH POLAND AND HUNGARY.

The Congress urges the President to seek bilateral investment treaties with Poland and Hungary in order to establish a more stable legal framework for United States investment in those countries.

TITLE IV--EDUCATIONAL, CULTURAL, AND SCIENTIFIC ACTIVITIES

SEC. 401. EDUCATIONAL AND CULTURAL EXCHANGES AND SISTER INSTITUTIONS PROGRAMS WITH POLAND AND HUNGARY.

(a) EDUCATIONAL AND CULTURAL EXCHANGES.--The United States should--

(1) expand its participation in educational and cultural exchange activities with Poland and Hungary, using the full array of existing government and privately-fund programs, with particular emphasis on the J. William Fulbright Educational Exchange Program, the International Visitors Program, the Samantha Smith Memorial Exchange Program, the exchange programs of the National Academy of Sciences, youth and student exchanges through such private organizations as The Experiment in International Living, The American Field Service Committee, and Youth for Understanding, and research exchanges sponsored by the International Research and Exchanges Board (IREX); and

(2) should take all appropriate action to establish binational Fulbright commissions with Poland and Hungary in order to facilitate and enhance academic and scholarly

exchanges with those countries.

(b) SISTER INSTITUTIONS PROGRAMS.--The United States Government encourages the establishment of ''sister institution'' programs between American and Polish organizations and between American and Hungarian organizations, including such organizations as institutions of higher education, cities and towns, and organizations in such fields as medicine and health care, business management, environmental protection, and agricultural research and marketing.

(c) AUTHORIZATION OF APPROPRIATIONS.--To support the activities described in subsections (a) and (b), there are authorized to be appropriated to the United States Information Agency $12,000,000 for the 3-year period beginning October 1, 1989, in addition to amounts otherwise available for such purposes.

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SEC. 402. POLAND-HUNGARY SCHOLARSHIP PARTNERSHIP.

(a) ESTABLISHMENT OF SCHOLARSHIP PROGRAM.--The Administrator of the Agency for International Development shall establish and administer a program of scholarship assistance, in cooperation with State governments, universities, community colleges, and businesses, to provide scholarships to enable students from Poland and Hungary to study in the United States.

(b) GRANTS TO STATES.--In carrying out this section, the

Administrator may make grants to States to provide scholarship assistance for undergraduate or graduate degree programs, and training programs of one year or longer, in study areas related to the critical development needs of Poland and Hungary.

(c) CONSULTATION WITH STATES.--The Administrator shall consult with the participating States with regard to the educational opportunities available within each State and on the assignment of scholarship recipients.

(d) FEDERAL SHARE.--The Federal share for each year for which a State receives payments under this section shall not be more than 50 percent.

(e) NON-FEDERAL SHARE.--The non-Federal share of payments under this section may be in cash, including the waiver of tuition or the offering of in-State tuition or housing waivers or subsidies, or in-kind fairly evaluated, including the provision of books or supplies.

(f) FORGIVENESS OF SCHOLARSHIP ASSISTANCE.--The obligation of any recipient to reimburse any entity for any or all scholarship assistance provided under this section shall be forgiven upon the recipient's prompt return to Poland or Hungary, as the case may be, for a period which is at least one year longer than the period spent studying in the United States with scholarship assistance.

(g) PRIVATE SECTOR PARTICIPATION.--To the maximum extent

practicable, each participating State shall enlist the assistance of the private sector to enable the State to meet the non-Federal share of payments under this section. Wherever appropriate, each participating State shall encourage the private sector to offer internships or other opportunities consistent with the purposes of this section to students receiving scholarships under this section.

(h) FUNDING.--Grants to States pursuant to this section shall be made with funds made available to carry out chapter 4 of part II of the Foreign Assistance Act of 1961 (22 U.S.C. 2346 and following; relating to the economic support fund). In addition to amounts otherwise available for such purpose under that chapter, there are authorized to be appropriated $10,000,000 for the 3-year period beginning October 1, 1989, for use in carrying out this section.

(i) RESTRICTIONS NOT APPLICABLE.--Prohibitions on the use of foreign assistance funds for assistance for Poland and Hungary shall not apply with respect to the funds made available to carry out this section.

(h) DEFINITION.--As used in this section, the term ''State'' means each of the several States, the District of Columbia, the Commonwealth of Puerto Rico, Guam, American Samoa, the Virgin Islands, the Trust Territory of the Pacific Islands, and the Commonwealth of the Northern Mariana Islands.

SEC. 403. SCIENCE AND TECHNOLOGY EXCHANGE WITH POLAND.

(a) AUTHORIZATION OF APPROPRIATIONS.--There are authorized to be appropriated to the Secretary of State for purposes of continuing to implement the 1987 United States-Polish science and technology agreement--

(1) $1,500,000 for fiscal year 1990,

(2) $2,000,000 for fiscal year 1991, and

(3) $2,000,000 for fiscal year 1992.

(b) DEFINITION OF AGREEMENT BEING FUNDED.--For purposes of this section, the term ''1987 United States-Polish science and technology agreement'' refers to the agreement concluded in 1987 by the United States and Poland, entitled ''Agreement Between the Government of the United States of America and the Polish People's Republic on Cooperation in Science and Technology and Its Funding'', together with annexes relating thereto.

TITLE V--OTHER ASSISTANCE

SEC. 501. ASSISTANCE IN SUPPORT OF DEMOCRATIC INSTITUTIONS IN POLAND AND HUNGARY.

(a) AUTHORIZATION OF ASSISTANCE.--In addition to amounts otherwise available for such purposes, there are authorized to be appropriated to carry out chapter 4 of part II of the Foreign Assistance Act of 1961 (22 U.S.C. 2346 and following; relating to the economic support fund) $2,000,000 for each of the fiscal years ~~1990, 1991, and 1992,~~ 1992 which shall be

available only for the support of democratic institutions and activities in Poland and Hungary.

(b) NONAPPLICABILITY OF OTHER LAWS.--Assistance may be provided under this section notwithstanding any other provision of law.

SEC. 502. ENVIRONMENTAL INITIATIVES FOR POLAND AND HUNGARY.

(a) EPA ACTIVITIES GENERALLY.--In addition to specific authorities contained in any of the environmental statutes administered by the Environmental Protection Agency, the Administrator of that Agency (hereafter in this section referred to as the ``Administrator'') is authorized to undertake such educational, policy training, research, and technical and financial assistance, monitoring, coordinating, and other activities as the Administrator may deem appropriate, either alone or in cooperation with other United States or foreign agencies, governments, or public or private institutions, in protecting the environment in Poland and Hungary.

(b) EPA ACTIVITIES IN POLAND.--The Administrator shall cooperate with Polish officials and experts to--

(1) establish an air quality monitoring network in the Krakow metropolitan area as a part of Poland's national air monitoring network; and

(2) improve both water quality and the availability of drinking water in the Krakow metropolitan area.

(c) EPA ACTIVITIES IN HUNGARY.--The Administrator shall work with other United States and Hungarian officials and private parties to establish and support a regional center in Budapest for facilitating cooperative environmental activities between governmental experts and public and private organizations from the United States and Eastern and Western Europe.

(d) FUNDING OF EPA ACTIVITIES.--To carry out subsections (a), (b), and (c), the Administrator is authorized to use--

(1) up to $3,000,000 in each of fiscal years 1990, 1991, and 1992 of funds appropriated under [*title VI of*] the Clean Water Act; and

(2) up to $1,000,000 appropriated to the Environmental Protection Agency under other authorizing statutes.

(e) DEPARTMENT OF ENERGY ACTIVITIES.--

(1) CLEAN COAL.--The Secretary of Energy shall cooperate with Polish officials and experts to retrofit a coal-fired commercial powerplant in Krakow, Poland, with advanced clean coal technology.

(2) EQUIPMENT ASSESSMENT.--The Secretary of Energy shall cooperate with Polish officials and experts to assess and develop the capability within Poland to manufacture boilers or other equipment that will enable industrial facilities within Poland to burn fossil fuels

cleanly.

(3) AUTHORIZATION OF APPROPRIATIONS.--To carry out this subsection, there are authorized to be appropriated $30,000,000 for the 3-year period beginning October 1, 1989. Not more than $10,000,000 of the funds appropriated under this paragraph may be used to carry out the requirements of paragraph (1).

SEC. 503. MEDICAL SUPPLIES, HOSPITAL EQUIPMENT, AND MEDICAL TRAINING FOR POLAND.

(a) AUTHORIZATION OF ASSISTANCE.--In addition to amounts otherwise available for such purposes, there are authorized to be appropriated to carry out chapter 4 of part II of the Foreign Assistance Act of 1961 (22 U.S.C. 2346 and following; relating to the economic support fund) $6,000,000 for each of the fiscal years ~~1990, 1991, and 1992~~, which shall be available only--

(1) for providing medical supplies and hospital equipment to Poland through private and voluntary organizations, including for the expenses of purchasing, transporting, and distributing such supplies and equipment, and

(2) for training of Polish medical personnel.

(b) NONAPPLICABILITY OF OTHER LAWS.--Assistance may be provided under this section notwithstanding any other provision of law.

TITLE VI--OTHER PROVISIONS

SEC. 601. ANNUAL REPORTS TO CONGRESS.

Not later than January 31 each year, the President shall submit a report to the Congress on the actions taken pursuant to this Act.

SEC. 602. ROLE OF SECRETARY OF STATE.

Assistance for Poland and Hungary under this Act shall be provided under the foreign policy guidance of the Secretary of State.

coordination