

# UNITED STATES ECONOMIC PROGRAMS FOR POLAND AND HUNGARY

---

## HEARINGS AND MARKUP BEFORE THE COMMITTEE ON FOREIGN AFFAIRS AND ITS SUBCOMMITTEES ON EUROPE AND THE MIDDLE EAST AND ON INTERNATIONAL ECONOMIC POLICY AND TRADE OF THE HOUSE OF REPRESENTATIVES ONE HUNDRED FIRST CONGRESS FIRST SESSION ON **H.R. 3402**

SEPTEMBER 20; OCTOBER 4 AND 11, 1989

Printed for the use of the Committee on Foreign Affairs



U.S. GOVERNMENT PRINTING OFFICE  
WASHINGTON : 1990

28-369

For sale by the Superintendent of Documents, Congressional Sales Office  
U.S. Government Printing Office, Washington, DC 20402

11381-60

## COMMITTEE ON FOREIGN AFFAIRS

DANTE B. FASCELL, Florida, *Chairman*

LEE H. HAMILTON, Indiana	WILLIAM S. BROOMFIELD, Michigan
GUS YATRON, Pennsylvania	BENJAMIN A. GILMAN, New York
STEPHEN J. SOLARZ, New York	ROBERT J. LAGOMARSINO, California
GERRY E. STUDDS, Massachusetts	JIM LEACH, Iowa
HOWARD WOLPE, Michigan	TOBY ROTH, Wisconsin
GEO. W. CROCKETT, Jr., Michigan	OLYMPIA J. SNOWE, Maine
SAM GEJDENSON, Connecticut	HENRY J. HYDE, Illinois
MERVYN M. DYMALLY, California	DOUG BEREUTER, Nebraska
TOM LANTOS, California	CHRISTOPHER H. SMITH, New Jersey
PETER H. KOSTMAYER, Pennsylvania	MICHAEL DEWINE, Ohio
ROBERT G. TORRICELLI, New Jersey	DAN BURTON, Indiana
LAWRENCE J. SMITH, Florida	JAN MEYERS, Kansas
HOWARD L. BERMAN, California	JOHN MILLER, Washington
MEL LEVINE, California	DONALD E. "BUZ" LUKENS, Ohio
EDWARD F. FEIGHAN, Ohio	BEN BLAZ, Guam
TED WEISS, New York	ELTON GALLEGLY, California
GARY L. ACKERMAN, New York	AMO HOUGHTON, New York
MORRIS K. UDALL, Arizona	PORTER J. GOSS, Florida
JAMES MCCLURE CLARKE, North Carolina	ILEANA ROS-LEHTINEN, Florida
JAIME B. FUSTER, Puerto Rico	
WAYNE OWENS, Utah	
HARRY JOHNSTON, Florida	
ELIOT L. ENGEL, New York	
ENI F.H. FALEOMAVAEGA, American Samoa	
DOUGLAS H. BOSCO, California	
FRANK McCLOSKEY, Indiana	
DONALD M. PAYNE, New Jersey	

JOHN J. BRADY, Jr., *Chief of Staff*  
CAROL G. DOHERTY, *Senior Staff Assistant*  
KRISTINE WILLIE, *Staff Assistant*  
ANNE GREY, *Staff Assistant*

## SUBCOMMITTEE ON EUROPE AND THE MIDDLE EAST

LEE H. HAMILTON, Indiana, *Chairman*

TOM LANTOS, California	BENJAMIN A. GILMAN, New York
ROBERT T. TORRICELLI, New Jersey	JAN MEYERS, Kansas
LAWRENCE J. SMITH, Florida	DONALD E. "BUZ" LUKENS, Ohio
MEL LEVINE, California	JIM LEACH, Iowa
EDWARD F. FEIGHAN, Ohio	CHRISTOPHER H. SMITH, New Jersey
GARY L. ACKERMAN, New York	
WAYNE OWENS, Utah	

MICHAEL H. VAN DUSEN, *Subcommittee Staff Director*  
RUSSELL J. WILSON, *Minority Staff Consultant*  
CHRISTOPHER KOJM, *Subcommittee Staff Consultant*  
KATHERINE A. WILKENS, *Subcommittee Staff Consultant*

## SUBCOMMITTEE ON INTERNATIONAL ECONOMIC POLICY AND TRADE

SAM GEJDENSON, Connecticut, *Chairman*

HOWARD WOLPE, Michigan	TOBY ROTH, Wisconsin
PETER H. KOSTMAYER, Pennsylvania	JOHN MILLER, Washington
MEL LEVINE, California	AMO HOUGHTON, New York
EDWARD F. FEIGHAN, Ohio	DOUG BEREUTER, Nebraska
HARRY JOHNSTON, Florida	MICHAEL DEWINE, Ohio
ELIOT L. ENGEL, New York	
ENI F.H. FALEOMAVAEGA, American Samoa	

JOHN SCHEIBEL, *Subcommittee Staff Director*  
KATHLEEN BERTELSEN, *Subcommittee Staff Consultant*  
PETER YEO, *Subcommittee Staff Consultant*

# CONTENTS

## WITNESSES

Wednesday, September 20, 1989:	Page
Hon. John D. Dingell, a Representative in Congress from the State of Michigan .....	9
Hon. Marcy Kaptur, a Representative in Congress from the State of Ohio. ....	19
J.B. Penn, vice president, Sparks Commodities, Inc.....	27
Jeffrey D. Sachs, professor of economics, Harvard University.....	42
George Soros, Soros Fund Management .....	53
Hon. Richard A. Gephardt, a Representative in Congress from the State of Missouri.....	62
Lane Kirkland, president, American Federation of Labor and Congress of Industrial Organizations.....	75
Jan Nowak, national director of the Polish American Congress.....	89
Wednesday, October 4, 1989:	
Hon. Alex McMillan, a Representative in Congress from the State of North Carolina.....	93
Curtis W. Kamman, Deputy Assistant Secretary for European and Canadian Affairs, Department of State.....	103
William E. Barreda, Deputy Assistant Secretary for Trade and Investment Policy, Department of Treasury.....	111
Christopher Goldthwait, Assistant General Sales Manager, Foreign Agriculture Service, Department of Agriculture .....	119
Richard Brown, Director, Office of Egypt and European Affairs, Bureau for Asia and Near East, Agency for International Development.....	126
Wednesday, October 11, 1989 (full committee markup, no witnesses).....	183

## MATERIAL SUBMITTED FOR THE RECORD

Prepared statement of Hon. Dan Rostenkowski, a Representative in Congress from the State of Illinois .....	3
Reform measures in Poland <sup>2</sup> .....	130
Savings mechanism in Poland <sup>2</sup> .....	131
Trade credit and insurance program <sup>2</sup> .....	137
Articles about assistance to Poland and Hungary, and shipping rates and cargo preference (submitted by Representative Doug Beyer) .....	141
American banks in Poland <sup>2</sup> .....	147
United States assistance to Poland <sup>1</sup> .....	152
Bridge loan to Mexico for \$600 million <sup>2</sup> .....	161
Repayment guarantees required for a bridge loan from the ESF <sup>2</sup> .....	163
Treasury's consideration of a bridge loan for Poland <sup>2</sup> .....	163
List of Treasury bridge loans since 1982 <sup>2</sup> .....	165
Congress mandating use of the ESF for Poland <sup>2</sup> .....	167
Bridge loan to Mexico for \$3.5 billion <sup>2</sup> .....	168
Trade Credit Insurance Program for Central America <sup>2</sup> .....	171
ESF extending a bridge loan before an IMF Program <sup>2</sup> .....	175
Food aid breakdown of commodities and programs <sup>3</sup> .....	178
Non-United States assistance to Poland <sup>1</sup> .....	180
Poland's debt to western Europe <sup>2</sup> .....	180
Letter to John S. Driscoll, editor, Boston Globe, from Robert S. Silberman, Deputy Administrator, Maritime Administration, U.S. Department of Transportation, concerning cargo preference requirements, October 6, 1989 (submitted by Representative Lawrence J. Smith).....	198

## IV

### APPENDIXES

	Page
1. Letter to Representative Lee H. Hamilton from Leszek Balcerowicz, Deputy Prime Minister for Economic Affairs and Finance Minister, dated September 16, 1989 (submitted by Jeffrey D. Sachs).....	219
2. A Plan for Poland (submitted by George Soros).....	220
3. Supplemental questions submitted by the Subcommittee on Europe and the middle East to the Department of State and responses thereto.....	225
4. Letter to Representative Joseph M. McDade from Dr. Karol H. Sitko, president, Ermark, Inc., former General Secretary for "Food for Peace" initiative.....	228
5. Letter to Representative Doug Bereuter from the North American Export Grain Association, American Farm Bureau Federation, urging Congress to waive cargo preference requirements for emergency food aid shipments .....	234
6. Letter to Hon. Richard Crowder, Under Secretary, Department of Agriculture from the Embassy of the Polish People's Republic, requesting a waiver of cargo preference requirement for emergency food aid shipments.....	235
7. Amendment in the nature of a substitute to H.R. 3402 .....	237
8. Authorization and appropriations in Poland/Hungary draft legislation.....	270
9. Letter to Chairman Dante B. Fascell from Hon. David Mulford, Under Secretary for International Affairs, Department of Treasury .....	271

---

<sup>1</sup> Submitted by the Department of State.

<sup>2</sup> Submitted by the Department of Treasury

<sup>3</sup> Submitted by the Department of Agriculture.



## UNITED STATES ECONOMIC PROGRAMS FOR POLAND AND HUNGARY

---

WEDNESDAY, SEPTEMBER 20, 1989

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON FOREIGN AFFAIRS,  
SUBCOMMITTEE ON EUROPE AND THE MIDDLE EAST,  
*Washington, DC.*

The subcommittee met, at 10:00 a.m., in room 2172, Rayburn House Office Building, Hon. Lee Hamilton (chairman of the subcommittee) presiding.

Mr. HAMILTON. The subcommittee will be in order. We have a long list of witnesses this morning.

Mr. DINGELL. Mr. Chairman, I have important legislation in another place but nothing is more important than the business you are doing. If I could do both, it will help.

Mr. HAMILTON. The Subcommittee on Europe and the Middle East meets today in open session to examine the economic situation in Poland and Hungary and to consider various proposals for new United States economic programs for Poland and Hungary.

We are very pleased to have as our lead-off witness the Honorable John D. Dingell, a representative in Congress from the State of Michigan. The Honorable Dan Rostenkowski, a representative from the State of Illinois, will testify a little later and the Honorable Marcy Kaptur, a representative from the State of Ohio who will testify soon.

Our second panel will be Jeffrey D. Sachs, Professor of Economics at Harvard University, George Soros for the Soros Fund Management, J.B. Penn, Vice President of Sparks Commodities, Inc. We will also receive testimony from the Honorable Richard Gephardt, majority leader, a representative in Congress from the State of Missouri and Lane Kirkland, President of the AFL-CIO and Jan Nowak, the National Director of the Polish American Congress.

We are very interested in the views of these witnesses as we are in the Administration's proposal for economic assistance for Poland and Hungary. The Administration will testify September 28 at 10:00 a.m. We, of course, are interested in proposals concerning assistance for these countries being advanced by the outside experts as well as Members of Congress.

Written statements from all the witnesses will be included in the record and I would encourage the witnesses to summarize their statements this morning.

I will include in the record at this point, without objection, the statement of Dan Rostenkowski, Chairman of the House Ways and Means Committee.

[The prepared statement of the Hon. Dan Rostenkowski follows:]

revised

STATEMENT OF  
CONGRESSMAN DAN ROSTENKOWSKI (D-IL)

TO THE SUBCOMMITTEE ON EUROPE  
AND THE MIDDLE EAST  
HOUSE COMMITTEE ON FOREIGN AFFAIRS

ON THE SUBJECT OF U.S. ASSISTANCE  
TO DEMOCRACY IN EASTERN EUROPE

September 20, 1989

Introduction

Mr. Chairman and Members of the Subcommittee:

Let me begin by congratulating you on the leadership this Subcommittee has established in the promotion of democracy in Eastern Europe.

Both in the form of legislation and in the form of oversight activities, you have been of great value to other Members, and the House in general, in keeping us informed and involved in this immensely important issue.

I also wish to thank you for the courtesy of the witness table which you have extended to me, today. In light of the excellent array of expert witnesses who are waiting to advise you, I will not be long.

I also need to note that most of my remarks today will deal with Poland. Please do not take that to mean any lack of interest in democracy in Hungary on my part. I happen to know a great deal more about Poland, and I happen to think the Polish people are in greater need of our immediate help at the moment.

In leaving Hungary for others to discuss, I do not mean to suggest a lack of enthusiasm on my part for the exciting democratic developments in Hungary. As you know, the Committee on Ways & Means has recently moved a multi-year MFN bill for Hungary to the other body.

An Opportunity ... And An Obligation

Mr. Chairman, I do not consider myself an internationalist. Nor am I thought of -- in many circles -- as a diplomat.

Nevertheless, I think I know an opportunity -- and an obligation -- when I see one, and that is why I have asked for these few moments with you this morning.

If there was ever a time for the United States to put its money where its mouth is -- this is it.

I do not need to recite for the Subcommittee the string of events which have culminated in the swearing in of a non-Communist government in Poland. What has happened ranks among the most important political developments in the world since World War II.

In varying degrees of faithfulness and vigor, the United States has gone down that road with Poland. Time and time again, we laid out the promise that if certain steps were taken, the U.S. would acknowledge that progress generously.

As I reviewed our messages to Poland -- and even delivered a few -- I was struck by the difficulty of what they had to do. There were times when I felt it was impossible that social and political reforms -- so-called "national reconciliation" -- could ever occur. But look where they are today. It is time to make good on our promises.

Ask yourself this: When Lech Walesa comes here in November, what are we going to say to him if we have been less than bold in our efforts over the next few weeks?

Are we going to send this patriot of freedom home with a fuller understanding about our budget deficit and little more -- like we do our local politicians?

Are we going to ask him to tell the Polish people to establish a "track record" of reform so we know we won't be throwing good money after bad? And check back with us next fiscal year?

I say I will hang my head in shame, Mr. Chairman, if the United States Congress does not get out in front, pull the President along, pull the entire Western world along, and help Poland save itself.

-3-

Legislative Goals

There are a lot of proposals before the House and Senate on exactly what we should do, and how much it will cost. The Subcommittee does not need my help in sorting through them one by one. What I would like to do, though, is categorize them into the four broad goals which our final enactment should pursue.

In doing so, I will give some examples, but they are just that -- examples. There are plenty of other proposals which pursue these goals, and I support them as well.

Here are the goals:

1. We must help to stabilize the political situation in Poland. Most prominent in this category would be massive food aid. No Polish family can be expected to follow the lead of the new government into a period of economic upheaval if they are hungry, or freezing in winter food lines.

The President's program of \$100 million in food for FY90 sounds like a lot of food -- and maybe it is -- but we have to be sure it is enough. We also have to use our strongest diplomatic influence to see that other countries do their share as well.

Also in this category would fall monetary aid designed to shore up the zloty and help the Poles bring their inflationary rate -- now hyper-inflationary -- back to Earth.

2. We must promote the development of the private sector in Poland. Much of what the President has asked us to do falls into this category, and those proposals must be the starting point of any programs enacted. The House has already passed the original GSP and OPIC proposals. The private enterprise funds must be established and generously funded, along with labor market reform aid.

All proceeds from the sale of donated food must be used for the development of private agriculture. Established organizations with expertise in helping Poland's many private farmers should be turned to -- for example, the Agricultural Fund of the Catholic Church, the Foundation for the Development of Polish Agriculture, and Rural Solidarity.

Poland needs our help in setting up consumer banks which will attract the jealously guarded hard currencies out of the mattresses and into secure, interest-bearing accounts. These banks must be designed so as to earn the confidence of the people, so that their assets can be protected against inflation while at the same time providing the much-needed capital for investments in new enterprises, new jobs, and new economic security.

-4-

Also into this category could fall programs designed to match-up private Polish businesses and business leaders with their counterparts in the States.

3. We must demonstrate the breadth and depth of our good will toward the people of Poland. Many programs fall into this category, including medical aid. What more well-meaning gift could one people send another than to ensure the health and well-being of the next generation?

We have built a marvelous Children's Hospital in Krakow, with a great wing named for former-Chairman Clem Zablocki. This investment in Poland's future must be maintained and ever improved. In addition, the Social Fund of the trade union Solidarity, Bishop Domin of the Episcopate, and the Polish-American Congress Charitable Foundation, among others, stand ready to begin to repair the devastated health care delivery system of Poland.

Money and technical assistance must be made available to help to reclaim Poland's poisoned water, air, and soil. We must fund feasibility studies for new clean coal-burning power plants, and help international conservation groups to help Poland through debt-for-nature swaps, "green libraries," and other innovative techniques..

Intercultural exchanges also fit under this category. Such will not save Poland in and of themselves, of course, but they will let the people know that we care about their whole lives. For example, American conductor Gilbert Levine, who is fulfilling an appointment to conduct the Krakow Philharmonic, represents one of a great many opportunities for us to make a little bit of money go a long way toward the general betterment of the Polish condition.

We must spread the gospel, and the language, of democracy. Poles are craving for English-language books and training. We can train the teachers and watch the benefit of our dollars multiply each school year.

4. We must take the world lead in saving Poland. Although listed last, this is by far the most important goal for the United States to pursue. It falls to the President and his Cabinet to make it happen, of course, but we can keep their feet to the fire.

The Paris Club, the International Monetary Fund, the World Bank, and the consortium of Western nations plus Japan are all positioned to give Poland the kind of assistance it needs. Debt relief and restructuring, technical assistance on economic reform, funded projects, new credits, massive and immediate food aid -- these have long been known to be what will help the most.

-5-

The United States, in turn, is best positioned to shift these bodies into high gear. Gone is the luxury of time for insisting on "track records of reform" and the completion of the 300th staff trip and thousands of pages of analysis. If these organizations are going to help, now is the time. If they need a kick-start, let's see that they get it.

Sense-of-Congress clauses in the eventual legislation and speeches on the floor will not be enough. The standing Committees with jurisdiction must be backed up by an army of Members, pushing all Cabinet Departments to leave no stone unturned in pursuing their opportunities in international bodies to come to the aid of democracy in Eastern Europe.

### A Matter of Political Will

Now, in laying out these goals, Mr. Chairman, I am not pretending to ignore the real problems we face in doing the bold thing. I am simply urging you, in the strongest possible and personal terms, to resist the natural tendencies to do less than we must.

It is a matter of political will, not political impossibility.

If you are worried about setting a dangerous precedent for other countries, there is a compelling argument for uniqueness in the case of Poland -- not only in the history of Poland but more importantly in the relationship between our two countries and our two peoples.

Let any other country-in-need try to match the ties between Poland and the United States. Our shared aspirations drew us together during our Revolutionary War and the bond has only grown stronger over the years. Polish backs have carried the burden of building of great American industries, great American cities and great American parishes. We have strong Polish-American organizations composed of close Polish-American families and neighborhoods.

No nation on Earth has turned more faithfully to the United States for inspiration and moral sustenance. No people loves the American people more than Poles. The people of Poland deserve special treatment at their time of need.

If you are worried about throwing good money after bad, given the disaster of U.S. aid in the 1970's, there are ways to protect the use and purposes of our money.

-6-

I, for one, would give the President discretion to pull the money out if things are not going well. We can stay closely involved through careful monitoring, full reporting, and by dint of sheer political force. There are other ways to control our funds, too, which are known to the Subcommittee.

If you are worried -- as you must be -- that the current budget crisis will not yield the cold, hard cash needed to do the job, I say take it out of Defense.

This does not mean that we have to jeopardize our own security, either. Saving Poland and Hungary -- and encouraging the growth of democracy in the Eastern Bloc -- will serve the purposes of our national security more efficiently and more surely than a few additional bombers, or fighters, or ships, or missiles, or even show-of-force maneuvers.

There are many Members who would support that position on the floor, too. Believe me.

#### Conclusion

Mr. Chairman and Members of the Subcommittee, the opportunity -- and the obligation to act on it -- must not be lost to small thinking and green-eyeshade accounting. This -- Democracy in Eastern Europe -- is what we have been working and praying for. It is what we believe in. But it doesn't come cheap.

Help us do what we have to do for Poland in the next fiscal year, Mr. Chairman, and I commit to you here and now that it will be easier next year.

Again, thank you for this opportunity to speak to you and the distinguished Members of the Subcommittee. I look forward to working with you to develop the boldest possible legislation to promote democracy in Eastern Europe.



Mr. HAMILTON. Chairman Dingell, we are delighted to have you, sir. We have appreciated the interest that you have had in this matter. You and I have talked several times about it privately since your return from Poland. I am very grateful to you for your leadership on this issue and your concern about it. We look forward to your testimony.

You may proceed.

**STATEMENT OF HON. JOHN D. DINGELL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN**

Mr. DINGELL. Thank you very much, Mr. Chairman.

First, for the record, my name is John D. Dingell, a Member of Congress from the 16th congressional district of Michigan. I thank you, Mr. Chairman, for your courtesy to me and for the splendid leadership that you are giving in terms of taking advantage on behalf of not only this country, but the world of the extraordinary situation which is going on in Eastern Europe everywhere.

This is perhaps the most glittering opportunity that this country has had to enhance world peace, abate tensions and to assist the peoples behind the Iron Curtain to move toward our goal set forth since World War II, freedom, self determination, and the ability of people there to carry out the purposes that were set forth by Wilson in the 14 Points and Roosevelt and Churchill in the Four Freedoms. It is an opportunity to achieve what we have never been able to achieve before in terms of affording freedom and opportunity to those peoples there and it is an opportunity to achieve world peace and stability in an area which is perhaps unique in the friendliness that it has for this country.

One of the extraordinary things about Poland is that it is probably the most pro-American country in the world and perhaps more so even than the United States. A similar statement can be made by the Hungarians and the Yugoslavs. The Congressional Delegation that I took to Eastern Europe met with the top leadership in both Yugoslavia and Poland.

I can report to you that everywhere we went we found several things, first a solid recognition by all that communism has failed, the system does not work. It does not provide either the real things in terms of life nor does it provide the things in terms of the things of the spirit to the people.

They recognize that the economic system has failed to provide either the proper incentives or the proper use of capital. Indeed, they recognize and will tell you that it has in fact failed. They are now desperately interested in doing two things: one, establishing freely elected multi-party governments which are based on free elections and free participation of all people and many different political parties.

They also desire to establish an economic system which is based upon incentives and upon market forces. This is an extraordinary change, one which this country should participate in because there are diplomatic, political and economic advantages to us. The greatest of which, however, is the fact that we will have the satisfaction that we will have completed the great effort which this nation

began in 1945 to try and rebuild and restore freedom to that area of the world.

As you know, Mr. Chairman, I had the privilege of leading a bipartisan group of 11 of my colleagues on a trip to Eastern Europe. We visited Poland and Yugoslavia. It was abundantly clear that the changes are enormous and that the wind of political freedom and economic change are sweeping with hurricane force across these countries.

We inquired about many things, including whether the people are willing to support constructive reforms and the interests and concerns of the Soviet Union. We find that we have nothing to fear from the Soviet Union if we proceed correctly and properly in our efforts to assist these nations to establish freedom within their borders and a better economic system.

This government faces great challenges in this effort. I would urge that we establish a program which would cover not only Poland and Hungary, but Yugoslavia and other Eastern European countries which might desire to move in that direction. It can be observed that in each of these countries the economy is deteriorating. In Poland inflation is about 170 percent a year and growing. Years of uneconomic investments, state subsidies and real wage increases have led to an extraordinary inflation.

The budget deficiencies in these countries is approaching 8 percent of GNP. While in Poland we met with Lech Walesa and he identified specifically things he thinks were needed to assist Poland.

Debt relief. They do not ask that we pay their debts or forgive them, but they ask we restructure about \$40 billion in debt. They owe \$2.2 billion to the United States and roughly \$28 billion to Paris Club members. They say they will pay their debt but they must have a different and better economic system and also understanding of the difficulties which it confronts. They generate about the same amount of foreign exchange that they need to service the debt.

Walesa was very clear that he desires establishment of U.S. banks in Poland because the Poles do not trust their own banks and they know if they deposit dollars or hard currency they get back zlotys, something held only in slightly lower regard than the communist system. Mr. Walesa states that the banks in Warsaw and Gdansk do not inspire trust among the people.

He estimated they had \$5 billion squirreled away at home. U.S. banks could bring this capital out of hiding. Mr. Walesa indicated that the United States and other democratic countries must take steps to secure investment by our firms and joint ventures with private businesses in Poland.

He specifically desires assistance in developing the private sector. He asked for experts, technical assistance and ventures which would demonstrate the principles of efficient business management.

The Administration has responded to the crisis in Poland and Hungary by sending up legislation upon which you are now proceeding with remarkable diligence and vigor. But a number of historic events have transpired making the President's legislative suggestions clearly inadequate.

I believe we should give the Administration everything it has asked for, and then do what is really necessary.

Congress must be willing to adopt a more comprehensive technical assistance package involving short and long-term assistance. I believe 14 Points could serve as a model. I believe the Congress should do a number of things, one of which is to see to it that we use the OECD, which is headquartered in Brussels, as a major partner in providing the necessary foreign assistance to Poland, Hungary and other countries that are trying to change their economic and political systems.

That would be of enormous help to these countries because OECD would bring in Japan and Canada and other countries which have the ability and willingness to participate. It is clear that the United States should take some particular steps to provide long-term and short-term assistance. We should require the Secretary of Agriculture to donate up to \$120 million in uncommitted surplus commodities to Poland in 1990 and 1991.

These commodities would be sold by the new government and the proceeds used by non-government agencies for activities related to projects to strengthen and support private and independent sectors of the Polish economy.

Similar steps have been made by the European countries in substantial donations of goods.

We should encourage American companies to assist in the creation of joint ventures and private sector development. We should insist, and the Poles are ready to take the necessary steps on their own to see that this process goes forward and there is a proper and receptive climate within their borders. The United States should press the Paris Club and other western democracies to assemble a liberal debt restructuring plan for Poland and Hungary and to seriously consider means to alleviate the situation and to establish more reasonable debt obligations which can be more appropriately paid off by these countries.

We must provide assistance for democratic institutions in Poland through organizations such as AFL-CIO and the National Endowment for Democracy. These are two organizations which provide extraordinary leadership and financial and moral and technical support already to the governments there behind the Iron Curtain.

They have achieved extraordinary advances in this area. We should continue to help them to move forward with the development of legal, legislative, electoral, journalistic and other institutions that promote free pluralistic societies. We should support World Bank loans and International Monetary Fund programs to stimulate sound economic growth.

The United States must expand the bilateral and multilateral assistance programs under the Agency for International Development.

We must encourage the participation of the Organization for Economic Cooperation and Development, OECD, as the lead organization to work with the European community in coordinating multilateral assistance efforts for Poland, Hungary, and Yugoslavia.

We must establish the American cultural centers in Poland and Hungary to promote educational and cultural exchanges to increase the understanding of western democratic institutions.

I will tell you a funny story: When the Russians had their first vote in the parliament after they began to move toward glasnost and perestroika, this was told to me by the Speaker. They found they didn't know what to do with "no" votes. They had to scurry around among the democratic countries in Eastern Europe to try to find out how one deals with those who wish to vote "no" and how that vote should be considered and implemented and dealt with.

This shows the weakness of the parliamentary system over there. These countries want help in terms of understanding how the laws and how the democratic systems function with particular emphasis on how the legislative and governmental systems work.

This is extremely important and assistance from American business and businessmen in understanding how these systems work is of great importance in achieving progress. We must expand exchange activities under the United States Information Agency. We must provide technical assistance from the United States and other western nations to improve the telecommunications and telephone system and take similar steps with regard to the food, commodity and goods distribution system.

Even though food is grown in large abundance in the farms of Eastern Europe it often cannot get to market because of the distribution system.

These recommendations could cost hundreds of millions of dollars while the spectre of Gramm-Rudman reaches into the darkest corners of American government. The President's answer is to raid the budgetary accounts that are least able to take cuts—the foreign assistance account, the Labor Department and the Environmental Protection Agency. However, other areas in the budget present better opportunities for contribution.

We will be spending \$500 million per plane to build the B-2 Stealth Bomber. This is an aircraft whose first flight was in search of a mission and where we do not yet know that it will work or be able to carry out any mission at all. We have spent tens of millions of dollars to support a failed policy in Nicaragua. It is strange that we cannot find then the ability to spend a fraction of these sums to assist countries like Poland, Hungary, or Yugoslavia in their hour of greatest need.

Whether the level of assistance is \$300 million or \$900 million, the money can be and indeed must be spent and found in these accounts. This will do vastly more for world peace than will the B-2 or a lot of the other efforts which this country has so unwisely engaged.

It will contribute to a lasting and stable pace in the world which has been the goal of the United States since 1945. The ultimate question the United States Congress must ask is what is the price for democracy in Poland or moving Hungary toward a democratic government or assisting the Yugoslavs in restructuring their economic and political system. Whatever the cost, this country faces the greatest opportunity we have seen since World War II.

I hope we take every advantage of this extraordinary opportunity to move forward toward democracy and world peace.

I want to commend my friend, Mr. Rostenkowski for his work and efforts with me on this. I want to commend the very fine gen-

tlewoman from Ohio, Ms. Kaptur, and you, Mr. Chairman and Mr. Fascell, for the work you and they have done.

I want to express thanks to the House leadership, Mr. Gephardt and Mr. Foley for their work and tell you how proud I am to be a participant. The costs of this endeavor will be large, not unbelievably large and not beyond the ability of this country, especially when we look to other nations to participate and contribute their share, particularly Japan, and other countries of Western Europe which are now undergoing unprecedented prosperity.

The President's basic goals of assisting development of the private sector in those countries are good. I support those objectives and I believe I can support those goals to a degree greater than the President. This Congress can achieve these ambitious goals by seeing to it that we have the funds necessary to put the proper programs in place to make our efforts regarding Poland and Hungary a success.

Thank you.

[The prepared statement of the Hon. John D. Dingell follows:]

STATEMENT OF  
THE HONORABLE JOHN D. DINGELL  
BEFORE  
THE SUBCOMMITTEE ON EUROPE AND THE MIDDLE EAST  
HOUSE COMMITTEE ON FOREIGN AFFAIRS

September 20, 1989

I thank the distinguished Chairman of the Subcommittee for inviting me to testify before the Subcommittee on a matter that I consider to be vitally important and I am honored to join with the Majority Leader, Mr. Gephardt, and Congressman Rostenkowski in presenting some of our recommendations about the assistance we believe the Administration and the Congress should be providing to Poland and Hungary.

Mr. Chairman, as you know, I had the privilege of leading a bipartisan group of 11 of my colleagues on a trip to Eastern Europe, including Poland. It is abundantly clear that the winds of political freedom and economic change are sweeping across these East-Bloc countries. For the first time in over 40 years, Poland has a non-communist government. Last week, the Polish Parliament ratified and approved the government of Prime Minister Mazowiecki.

This new government faces great challenges. Poland's economy is deteriorating. Inflation, currently around 170 percent per annum, is accelerating. Years of uneconomic investments, state subsidies of inefficient industries, and real wage increases designed to keep political peace have led to the inflationary cycle. The budget deficit is approaching 8 percent of GNP.

As Delegation members walked through the streets of Warsaw, Gdansk, and Krakow they were approached by both adults and children desperate for U.S. dollars--a stable currency. Children selling postcards or Solidarity buttons wanted dollars, not zlotys--the Polish currency. It indicates how little faith they have in their own economic system.

The Polish people are suffering terribly. Consumer goods and food items, such as beef, are unavailable or priced far out of reach of the ordinary citizen. Long lines for everything abound. The people are sad, angry, and united in their demand for change. The people, from ordinary citizens to parliamentary leaders and chiefs of state, recognize that Communist economic and political doctrine has failed.

The new political leaders of Poland are most impressive. In our meetings they emphasized that economic change must accompany the historic political change taking place. In China, political reform lagged economic changes. In Poland, it is the reverse. In our meeting with him in August, Lech Walesa stated that "the Communist curtain has been lifted." He called the current path of reforms a "slippery path" and strongly and repeatedly asked for assistance from the United States and other Western democracies.

-2-

During our meeting, Mr. Walesa identified some specific initiatives to assist Poland. Let me briefly summarize them:

(1) Debt relief: Restructuring of the approximately \$40 billion of foreign debt. Poland owes \$2.2 billion to the United States and roughly \$28 billion to Paris Club creditors. Walesa stated that Poland will repay the debt, but under a new and different economic system.

(2) Establishment of U.S. banks in Poland. Mr. Walesa stated that the banks in Warsaw and Gdansk did not inspire trust in the Polish people. For this reason, Mr. Walesa estimated that the Polish people have \$5 billion squirreled away at home. U.S. banks might bring that capital out of hiding.

(3) Investment. Mr. Walesa indicated the United States and other democratic countries must take steps to provide assistance in securing investment and joint ventures with private businesses. Walesa specifically asked for experts and ventures which could demonstrate principles of efficient business management.

Our Delegation also met with other Polish officials, such as Andrzej Stelmachowski, Marshal of the Senate, who pointed to the extreme shortages of merchandise and commodities and the despair among large segments of the population. Most Solidarity officials stressed the need for for both short- and longer-term assistance from the U.S. and European countries was crucial.

I cannot overstate the importance of the United States providing swift and comprehensive assistance to Poland. It is so important that Mr. Walesa is planning to visit Washington, D.C. in mid-November to meet with President Bush and, hopefully, with Members of Congress. Mr. Walesa must come to the United States with a clear and unequivocal recovery plan for the new Polish government and the Polish people.

In the meantime, we cannot sit on our hands and we cannot let opportunity pass us by. The U.S. Congress must begin to shape a comprehensive assistance package at the earliest opportunity--not just to help Poland, but to aid the cause of democracy. If we do not come to Poland's aid, how can we expect others to make the sacrifices necessary to obtain freedom and democracy?

The Administration has responded to the crisis in Poland and Hungary by sending up legislation, and I applaud the President for taking this first step. But I must honestly say that those historic events which have transpired since the President formulated his plan have rendered his assistance package as inadequate.

The Administration's proposal to establish Polish-American and Hungarian-American Enterprise Funds to provide loans, grants, equity investments, feasibility studies, technical assistance, training and other forms of assistance to promote private enterprise activities in Poland and Hungary is a good start.

-3-

The President's three-year \$125 million funding request for his legislation is inadequate and misses the opportunity to provide these Enterprise Funds with a solid financial operating base. The environmental and labor components of the President's plan are well-intentioned, but do not provide the scope of funding needed to meet the crisis in these countries.

The Administration's plan has, at least, established the playing field. Those of us in Congress who care about the future of Poland and Hungary will have to carry the ball.

For this reason, I believe we should give the Administration everything it has asked for--and then do more. Congress must be willing to advance a more comprehensive assistance package involving both short- and long-term financial and technical assistance.

For example, Congress has already taken steps to establish the foundation for an aggressive assistance package for Poland. The Omnibus Trade Bill required the Administration to ship a total of 16,000 metric tons of butter and sorghum to Poland in Fiscal Years 1988 and 1989. These shipments are scheduled to begin this month, and should be completed by mid-October. Because of Congressional pressure, the Administration recently announced it would make available an additional \$100 million in food assistance to Poland. It is a good first step, but more must be done.

For example, this country has a tremendous surplus of pork bellies and other commodities that the Department of Agriculture could make available to the Polish people. The Department of Agriculture should utilize the "Food for Progress" program, enacted as part of the 1985 Farm Bill, and other authorities to ship additional commodities to Poland in the very near term.

Congress also should include in its comprehensive assistance package provisions similar to the bill drafted by Congressman Thomas Coleman to require the Secretary of Agriculture to donate up to \$120 million of uncommitted surplus commodities to Poland in Fiscal Years 1990 and 1991. These commodities would be sold by the new government in Poland, and the proceeds used by nongovernmental agencies for activities related to projects to strengthen and support private and independent sectors of the Polish economy.

Beyond food relief, it is clear that the United States needs to make technical assistance available to Poland and Hungary to assist in the development of a more efficient and productive agricultural sector and to improve its commodity distribution system.

On another front, the United States also must encourage American banks, financial institutions and other industries to locate in Poland to assist in the process of capital formation, the creation of joint ventures and private sector development.



-4-

In the financial area, the U.S. Congress and the Administration must press the Paris Club and other western democracies to assemble a liberal debt restructuring plan and to seriously consider means to alleviate reasonable debt obligations.

The Congress must increase the authorization levels of legislation--specifically H.R. 2550, the "Democracy in Eastern Europe Act of 1989"--which has already passed the House and is awaiting action in the Senate. The bill would provide Poland with preferential GSP trading status and provide authority for the Overseas Private Investment Corporation (OPIC) to support projects in both Poland and Hungary to promote private sector activity. The legislation also would provide \$3 million to implement the 1987 Polish-United States Science and Technology Agreement and would authorize \$2 million for a program to provide medical and hospital equipment to Poland and to train Polish medical personnel.

Mr. Chairman, there are other essential elements a comprehensive assistance package for Poland and Hungary should contain, some of which have been suggested by Lane Kirkland, President of the AFL-CIO, Solidarity leaders, the Polish American Congress, and other experts.

These provisions should include:

- \* Assistance for democratic institutions in Poland, such as the AFL-CIO and National Endowment for Democracy, to help the development of legal, legislative, electoral, journalistic or other institutions of free pluralist societies;
- \* Language urging the United States to exercise leadership in supporting World Bank loans designed to modernize industry and agriculture, and International Monetary Fund programs to stimulate sound economic growth;
- \* An expansion of the bilateral and multilateral assistance programs under the Agency for International Development;
- \* Language urging the inclusion of the Organization for Economic Cooperation and Development (OECD) as a lead international organization to work with the European Community in coordinating multilateral assistance efforts for Poland and Hungary. The OECD is an important component in this process because Japan, Canada, and the United States are participating members with greater economic resources;
- \* The establishment of American cultural centers to promote educational and cultural exchanges and increase understanding of Western democratic institutions;
- \* Expanded exchange activities under the Fulbright, International Visitors and United States Information Agency programs;
- \* Technical assistance from the United States and other western nations to improve the telecommunications and telephone system in Poland and Hungary.

These recommendations could cost hundreds of millions of dollars--at a time when the spectre of Gramm-Rudman reaches into the darkest corners of the Congress. The President confronts this funding dilemma by suggesting that we raid those budgetary accounts that can least afford to take cuts--the Foreign Assistance Account, the Labor Department and the Environmental Protection Agency. I might point out, however, that there are other areas in our budget that present better opportunities for contribution.

For example, the United States is spending over \$500 million per plane to build the questionable B-2 Bomber. We have spent tens of millions of dollars to support a failed policy in Nicaragua. Yet, the Administration is unwilling to spend a fraction of these sums to assist Poland and Hungary in their hour of greatest need. The Department of the Army's budget for the Research, Development, Testing and Evaluation, alone, runs into the billions of dollars. I suspect that if Congress really wants to provide the type of assistance that Poland and Hungary really needs, whether the level of assistance is \$300 million or \$900 million, that money can be found in these accounts--and it will probably do a great deal more to promote peace and democracy.

The ultimate question the U.S. Congress must ask is what is the price for democracy in Poland, or for moving Hungary toward democratic government? Whatever the cost, we now stand at the threshold of the greatest opportunity our country has seen since World War II. I would hope that we can take every advantage of that opportunity to make an investment in democracy.

Mr. HAMILTON. Mr. Dingell, we are very grateful to you for getting us off to a good start here.

Your statement is outstanding. It has given us valuable suggestions. It is quite comprehensive and I commend you for it. You have been a good lead-off hitter and we appreciate it very, very much. I know your time is very tight and you have other commitments in your own committee.

Mr. LANTOS, do you have any questions?

Mr. LANTOS. I want to join you in commending my friend and distinguished colleague for the leadership he has shown. I would like to mention to him that Senator Cranston and a group of colleagues in the Senate introduced comprehensive legislation involving both Poland and Hungary, legislation that goes way beyond the Administration's proposals.

This morning I am introducing the House version of that. I would be grateful if my colleague would consider studying it and coming on board. It seems to me that both countries need to be treated as a package.

They have different problems, the problems in Poland are much more severe and pressing. The problems in Hungary are more pragmatic, transforming to a market economy in the long run.

Mr. DINGELL. I will have my staff work with yours toward that end.

Mr. LANTOS. Thank you.

Mr. HAMILTON. Mr. Solarz.

Mr. SOLARZ. I don't have a question but I want to pay tribute to the gentleman from Michigan for his extraordinarily elegant statement and for his willingness to lend his own very significant support to this essential effort.

I think we have not only a historic opportunity but a historic obligation. The events which have transpired in Poland are among the most important political developments of the last half century. They hold forth the promise of bringing the cold war to an end. What it will really take more than anything else is an act of political will on the part of the Congress and the President.

I think the willingness of the very distinguished Member from Michigan, whose reputation in the House is one of great stature, to support a truly significant aid package lends real political impetus and credibility to this effort, more perhaps than even he can imagine.

I want to thank him for his presence here today and for his words of support on behalf of a truly creative initiative for Poland.

Mr. DINGELL. Thank you, very much.

Mr. HAMILTON. Thank you, Mr. Chairman, Mr. Dingell. You certainly are excused with our thanks.

Mr. DINGELL. Thank you. I have a lengthy statement which I would like included in the record.

Mr. HAMILTON. Without objection.

#### STATEMENT OF HON. MARCY KAPTUR, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO

Mr. HAMILTON. Ms. Kaptur.

Ms. KAPTUR. My statement has not been corrected as yet, but we will submit it.

Mr. HAMILTON. It will be included.

Ms. KAPTUR. It is a pleasure to be here. I want to commend you and all the Members of this committee for paving the way on this issue. As many of you know I am Polish-American. I want to thank Speaker Foley, majority leader Gephardt and Congressmen Dingell and Rostenkowski and your committee for trying to move legislation that will make a difference.

I wanted to briefly outline a proposal that I am submitting as a bill which I hope would be given consideration by the Members and ultimately included in any final legislative package that is approved and sent to the President for signature.

Basically my proposal would enlarge upon the initiative that majority leader Gephardt will be presenting to you shortly. Specifically, I propose a two-part exchange program that would involve a sister city and town program along with a people to people exchange program which could prove to be so valuable to the Polish people in this fledgling period of their experiment with a more democratic society. Such an exchange program could unleash the massive goodwill of millions of U.S. citizens and Polish citizens toward one another, especially rekindling the ties of those who are of Polish heritage in both nations.

I would entitle this exchange program the Pulaski-Kosciuszko Memorial Exchange Program named after two Polish patriots, honored highly in their own land and ours, who were so instrumental in helping the United States be victorious in our own American Revolution.

The program's purpose would be to build on the thousands points of light President Bush often references and expand the level of contact between U.S. and Polish citizens on all fronts: economic, intellectual, scientific, artistic, and academic. I would like to have this exchange program incorporated in the final measure passed by this Congress.

The program has two aspects. One aspect to be coordinated by the U.S. Department of Housing and Urban Development—which has legislative authority to convene Cabinet-level departments on an interagency basis would provide for a “sister city and town adoption program” between U.S. and Polish communities. Cities like my own in Toledo, Ohio which has a large Polish-American population could be linked to a sister community with all of the ties and opportunities for friendship and travel that such exchanges encourage.

The second aspect of my proposal is a “People to People” citizen exchange that could be coordinated through the Peace Corps or the National Endowment for Democracy but involve the Department of Labor, the National Endowment for the Arts and Humanities and the Retired Senior Volunteers Program, Vista, the Older Americans Employment Program, the U.S. Information Agency and other related federal agencies. I envision this effort as one that would provide an opportunity for direct skills and exchange across borders both ways on an annual basis. It would exchange these skills between carpenter to carpenter, farmer to farmer, teacher to teacher, baker to baker, restaurant operator to restaurant operator,

radio station talk show host to radio station talk show host, church organist to church organist, veteran to veteran, et cetera. I know tradespeople, journalists, scientists, church groups, doctors and many others would respond if given the opportunity. Frankly, I would encourage America's senior citizens to become involved by extending to the federal government payments for their Part B Supplemental premiums under Medicare and no taxation on income earned in excess of Social Security for the year they enroll in the exchange program. The program would involve Polish citizens spending one year in the U.S. as well as U.S. citizens volunteering for one year in Poland.

Finally, Mr. Chairman, let me express a view of the financial reschedulings and food relief that are attendant to the plan which is likely to emerge from Congress. Any financial assistance or debt forgiveness that is contemplated for Poland should be conditioned on the following: one, agreement by the government of Poland to western investment that is of a joint venture; two, agreement by the Polish government to the institution of a private banking system that allows for loans to be made to private Polish entrepreneurs in partnership with western investment; three, the development of a privately run credit union network in Poland organized by Polish citizens themselves.

In terms of food shipments and agricultural aid, I suggest encouraging the direct involvement of farmers cooperatives in the United States delivering these shipments and establishing ties between farmers' cooperatives in the U.S. and Polish farmers through the sister-city program I have outlined. Our U.S. Farm Credit System could be most helpful in promoting these exchanges.

In summary, Mr. Chairman, people in both the U.S. and Poland could benefit from a comprehensive exchange program—and our two nations could emerge better for it.

I stand ready to work with the Members of the subcommittee on this issue and look forward to speaking with all of you further about this issue in the days and weeks ahead. I greatly appreciate your allowing me to speak this morning.

[The prepared statement of the Hon. Marcy Kaptur follows:]

U.S. RESPONSE TO DEVELOPMENTS IN POLAND  
HOUSE SUBCOMMITTEE ON EUROPE AND THE MIDDLE EAST

Testimony  
The Honorable Marcy Kaptur  
September 20, 1989

Thank you Mr. Chairman and Members of the Subcommittee for this opportunity to testify before you this morning. I would also like to thank you as well as Speaker Foley, Majority Leader Gephardt, and Congressmen Dingell and Rostenkowski for your important leadership on this issue.

Mr. Chairman, recent positive events in Eastern Europe and the Communist world have made it historic to read the newspaper each morning. With each new development, the unlikely is becoming possible... and the impossible is becoming reality. Headlines impossible just a few short years ago, are literally flowing from the front pages at an amazing clip.

Just a few short months ago, the headlines told of Hungary and their first tentative step toward democracy. It hardly seemed possible. But there were the Hungarian officials, frantically ripping out the rusted barb wire fence along the iron curtain. Now, that the symbolic barrier between worlds is torn down, the pictures below the headlines show us the droves of East Germans, triumphantly passing through Hungary on their journey from east to west. In their faces, we can see their dogged determination. In their comments, we can almost feel there their spirit; that same spirit that brought so many of our descendants to the United States.

.. June, the headlines were of the elections in the Soviet Union, unprecedented in their scope, remarkable in their outcome.

TESTIMONY  
PAGE TWO

As the stories flow out, it is hard to fathom the changes in a country that, just a decade ago, seemed so entrenched in its backward and repressive ways.

And then, of course, there is Poland. For all the reports of roundtables, reforms, and elections, there was seemingly no way to predict the headline that greeted the world on that fateful day last month. Seemingly overnight, the old order giving way to the new, the east bowing to the west, and the unthinkable suddenly becoming reality.

A member of Solidarity, jailed by the Polish Government for a year in 1982, is now Prime Minister and his associates in the trade-union movement control 99 out of 100 seats in the Senate. Inconceivable even days before it occurred, a Communist government has handed over the reins of authority to its opposition, a new era in Eastern Europe has been born.

I am not here today to critique President Bush's response to this sweeping change. I am here to support my colleagues in their move to strengthen the legislative proposal that the President has already given us. For lasting economic and political freedom to be achieved, the United States must help the people of Poland in this critical period in their nation's history.

I come before the Subcommittee today, Mr. Chairman, to show my support and to enlarge upon the initiatives that Majority Leader Gephardt will be presenting to you shortly. Specifically, I would like to make the case for a two part exchange program--

TESTIMONY  
PAGE THREE

a "Sister City and Town Program" and a "People to People" program. Its purpose is to directly help the Polish people in this fledgling period of their experiment with a more democratic society. Such an exchange program could unleash the massive goodwill of millions of U.S. citizens and Polish citizens toward one another, especially rekindling the ties of those who are of Polish heritage in both nations.

I would entitle this exchange program the "Pulaski-Kosciuszko Memorial Exchange Program" named after the two Polish patriots, honored highly in their own land and ours, who were so instrumental in helping the United States be victorious in our own American Revolution.

The program's purpose would be to build on the thousand points of light President Bush often references and expand the level of contact between U.S. and Polish citizens on all fronts: economic, intellectual, scientific, artistic, and academic. I would like to have this exchange program incorporated in the final measure passed by this Congress.

My proposal has two aspects. One aspect, to be coordinated by the United States Information Agency in cooperation with the U.S. Department of Housing and Urban Development, and the U.S. Department of Agriculture would provide for an expanded "Sister City and Town" initiative between U.S. and Polish cities and towns. Cities like my own in Toledo, Ohio-- which has a large Polish-American population-- could be linked to a sister community with all of the ties, opportunities for friendship,



TESTIMONY  
PAGE FOUR

commerce and and travel that such exchanges encourage.

The second aspect of my proposal is a "People to People" citizen exchange that could be coordinated through a Presidential-Congressional Commission coordinated through the U.S. Information Agency and involving the Peace Corps, the National Endowment for Democracy, the Department of Labor, the National Endowment for the Arts and Humanities, the Retired Senior Volunteer Program, Vista, and the Older Americans Employment Program, and other related federal programs. I envision this effort as one that would provide an opportunity for direct sharing of skills and exchanges across borders, both ways, on an annual basis. It would exchange these skills from carpenter to carpenter, farmer to farmer, teacher to teacher, student to student, baker to baker, restaurant operator to restaurant operator, radio station talk show host to radio station talk show host, church organist to church organist, veteran to veteran, etc. I know tradespeople, journalists, scientists, church groups, doctors and many others would respond if given the opportunity. Frankly, I would encourage America's senior citizens to become involved by extending to the federal government payments for their Part B Supplemental premiums under Medicare and no taxation on income earned in excess of Social Security for the year they enroll in the exchange program. The program would involve Polish citizens spending one year in the U.S. as well as U.S. citizens volunteering for one year in Poland.

Finally Mr. Chairman, let me express a view of the financial

TESTIMONY  
PAGE 5

restructuring and food relief that are attendant to any plan that is likely to emerge from Congress. Any financial assistance or debt forgiveness that is contemplated for Poland should be conditioned on the following: 1) agreement by the government of Poland to western investment that is predominantly of a joint venture between the private sector of the U.S. and the fledgling private sector in Poland; 2) agreement by the Polish government to the establishment of private banking institutions that allows for loans to be made to private Polish entrepreneurs in partnership with western investment; 3) the development of a privately run credit union network in Poland organized by Polish citizens themselves.

In terms of food shipment and agricultural aid, I suggest encouraging the direct involvement of farmers cooperatives in the United States in delivering these shipments and establishing ties between farmers' cooperatives in the U.S. and Polish farmers through the "Sister-City and Town program I have outlined. Our U.S. Department of Agriculture and voluntary farmers organizations could be most helpful in promoting these exchanges.

In summary Mr. Chairman, people in both the U.S. and Poland could benefit from a comprehensive exchange program. Our two nations would emerge better for it.

I stand ready to work with the Members of the Subcommittee on this issue and look forward to speaking with all of you further about this issue in the days and weeks ahead. Thank you.

Mr. HAMILTON. We are glad to have had you. We appreciate your statement, particularly the emphasis you put on the sister city and the people to people relationship which ought to be part of any program toward Poland.

I think you have added to our concerns and deliberations this morning. We are grateful to you. Are there any comments or questions?

The Chair is juggling a lot of witnesses this morning. It may be at some point along the line we will have to interrupt the panel to take the testimony of the majority leader or perhaps the Chairman of the Ways and Means Committee, Mr. Rostenkowski. But we are especially grateful for you and your appearance this morning.

We look to you for genuine expertise on these matters that we are considering. The three members of this panel are Mr. J.B. Penn, Vice President of Sparks Commodities, Inc., Mr. Jeffrey D. Sachs, Professor of Economics at Harvard who I believe has spent a lot of time recently in Poland, and Mr. George Soros from the Soros Fund Management. We are delighted to have you, sir, and we know a great deal about your interest in Eastern Europe and your remarkable success there.

Mr. Penn, would you begin please? I would ask you all to keep your statements relatively brief so we can have time to ask questions.

#### STATEMENT OF J.B. PENN, VICE PRESIDENT, SPARKS COMMODITIES, INC.

Mr. PENN. Thank you, Mr. Chairman. I do have a longer statement which I will submit for the record. I will briefly summarize my remarks today which I want to focus on food and agriculture. I am especially pleased to have the opportunity to report the results of a recent assessment of the Polish food and agriculture situation which was conducted late last month by an international team of specialists led by Dr. Norman Borlaug, generally credited as the father of the Green Revolution.

I would like to focus my remarks in three areas: to comment quickly on the immediate situation in Poland as it relates to food and agriculture; to look ahead to the needs for next year; and then talk very briefly about the longer term needs.

The economic situation in Poland has been widely reported. The economy is very near collapse. There is a huge external debt, triple digit inflation, overvalued currency, strikes, shortages, hoarding, and high food prices. The population is thoroughly demoralized and the growing attitude is "why work when there is nothing to buy?"

A lot of the uncertainty has been generated by the political situation of recent months—first the elections, and then August 1 food price hikes, and then the difficulties in formation of a new government in which the communists eventually relinquished substantial control.

It is still a command economy and all this uncertainty has meant that decisions were not made, commands were not given. Thus, the economy is virtually in collapse, about to come to a standstill.

One of the most important tasks of the new government is to restore confidence and political stability, and to get people going about the normal routines again—return to work, stop hoarding.

There are food shortages in Poland at the present time, but these have been exacerbated by the uncertainty I just mentioned. People bought large amounts of foodstuffs, and hoarding was widespread as people sought to beat the August 1 price hikes.

After that, with the uncertainty over the formation of the government, people continued to buy whatever food was available. Farmers were temporarily withholding some commodities from the market, notably livestock, and that caused a short supply situation. So, much of the current food situation is unusual. It is caused by the surge in demand due to the political uncertainty. It is caused by shortages due to the uncertainty of farmers as to what the prices would be, distribution problems.

But, overall, the Polish people are not hungry. The total food supply available in 1989 is only slightly less than it was in the previous year. That is because livestock numbers have been trending down slightly. The distribution problem involves shortages in the urban areas, with more plentiful supplies in the countryside.

The Poles have had a good harvest this year: 25.5 million tons of grain, the second largest in history, the potato crop was good; and a record crop of rape seed which produces oil for human consumption and food for livestock.

However, there is a need to restock the shelves in the urban areas. It is my view that the government of Poland needs assistance. It needs to show it has the confidence of western nations, and that it can move to alleviate the situation while implementing the mechanisms for a market economy.

They need meat, butter, flour, rice—food commodities—and they need them quickly, before the end of the year.

A second urgent need, looking toward the following years, is high protein feeds. They have an abundant grain harvest and green forage, but they need protein. The idea is to supply protein feeds and increase the meat supplies which will take six to nine months to produce. By next July and later, increased quantities of beef and pork can be on the market.

That should cause food prices to fall. That would be the first sign of tangible economic progress the Polish people have seen for a long, long time. But the food supplies will not increase next year unless the farmers are able to respond. The prices have shot up, and farmers should respond to higher prices with greater output.

In order to do this, they must have the protein feeds and other production inputs. Everything is in short supply; fertilizers, plant protection chemicals, machinery, spare parts. All are in short supply.

In order to expand the crop and feed output next year, Polish farmers need these items.

Now having said that they need substantial amounts of food, feed and other production inputs, I think some observations should be made about how to provide these.

First of all, if we dump large amounts of these commodities in the Polish economy, we probably will be doing more harm than good. We have to make sure these commodities are entered into the

economy in a way that doesn't disrupt the fragile markets that only now are emerging.

If we dump large amounts of meat into certain localities, we can depress the price of live hogs for days and only make the situation worse, with shorter supplies of food next year, and higher prices, and more political uncertainty. So I think we have to take every precaution to get these commodities into the system using private enterprise wherever possible.

I believe there is substantial capacity by the private sector to receive and distribute these commodities. They don't have to go to the government and be run through the usual State channels. I think we also should try to monetize the commodities, and then use the funds that are generated for the development of private agriculture and the food economy.

Having said that, I will jump quickly to the longer term and conclude, Mr. Chairman. This Borlaug mission of international specialist was impressed with the potential for Polish agriculture. The science base is good. The farmers are obtaining only 50 to 70 percent of the genetic potential from the existing crop and livestock breeds.

The constraints are livestock practices and the production inputs. The climate is good and they have potential to produce much more food than they do now. For the long term development of the agriculture sector, they need the economy to be put in shape. You cannot develop agriculture in isolation. It has to be developed in the context of overall economic reform.

The first thing everybody mentions is debt relief. Servicing the huge debt requires all the foreign exchange that is generated. It leaves no maneuver room. It precludes imports that are critically needed in the agriculture sector, and prevents all but a trickle of new capital into the food processing area. Investment is needed, both convertible and local currency. That requires the development of capital markets, institutions and mechanisms to mobilize savings and make it available for worthwhile projects.

You have to restore confidence in the currency and restore confidence in the government to generate savings and investment. Beyond that, agriculture needs technical assistance of all kinds.

We talked about having market mechanisms and a capitalistic economy for agriculture, but there are no institutions to support that. There is no institution that gathers price information and disseminates it. They don't know how to operate livestock auctions, for example.

Technical assistance at all levels is needed. While the science base is quite high in Poland, the extension service is deemed a failure. It is counter productive. The information that is available does not get disseminated to the small farmers who could greatly improve productivity. That is a fundamental need for restructuring and more effective use of the existing service.

With that, Mr. Chairman, I will close and, of course, be pleased to answer any questions that the subcommittee might have.

Mr. HAMILTON. Thank you, Mr. Penn.

[The prepared statement of Mr. Penn follows:]

Statement before the  
Subcommittee on Europe and the Middle East  
Committee on Foreign Affairs  
U.S. House of Representatives  
Washington, D.C.

Dr. J.B. Penn  
Vice President  
Sparks Commodities, Inc.

September 20, 1989

Mr. Chairman, I appreciate the invitation to appear before the Subcommittee to discuss the economic and political situation in Poland.

I will focus my remarks on food and agriculture. In particular, I want to offer my views on the immediate problems the Polish people face, the needs for next year, and for the longer-term development of the agricultural sector.

I am pleased in my remarks to be able to report the observations of an international team of specialists led by Dr. Norman E. Borlaug that evaluated Polish agriculture and the food economy late last month. I participated in that mission which was conducted at the request of the Foundation for the Development of Polish Agriculture, a Polish organization that assists private farmers. This was the second Borlaug mission, with the first undertaken in 1982 shortly after the imposition of martial law when the food situation also was a considerable concern.

The Immediate Situation and Needs

The current state of the Polish economy has been widely reported. It is near collapse. It is characterized by the burdensome external debt, soaring prices, sporadic strikes, absenteeism in the workplace, long queues at food shops, shortages, and hoarding. The absence of consumer goods and the eroding

value of the currency are reinforcing the attitude of why work when there is nothing to buy. The people are thoroughly demoralized.

The underlying economic problems have been exacerbated in recent weeks by the political tensions surrounding the elections, freeing of food prices on August 1, and subsequent formation of a new government with the Communists relinquishing some significant control. The general uncertainty has caused panic buying and hoarding by consumers, and farmers have temporarily withheld some farm products from the market. The very high rate of inflation (estimated to have been 40 percent for August alone) also encourages conversion of currency into any tangible good that has a better prospect of holding its value than the zloty. All of this created an atypical demand surge against an unusually short supply. People are behaving rationally under the circumstances, but that behavior produces serious disruptions in the normal functioning of the economy.

One of the most formidable challenges affecting the new Polish leadership is the need to restore public confidence. This is essential to give the new government the time it needs to implement measures to bring greater market orientation to the economy.

One action that would increase confidence would be rapid increases in food availability in urban areas—restocking the shelves with meat, butter, flour, vegetable oils, etc. The Polish population is not hungry now. In fact, total food availability this year likely is only slightly less than last year, due mainly to somewhat reduced meat supplies from declining livestock numbers (primarily the hog herd). In neither year was total calorie availability short. The crop harvest now being completed generally was quite good, with the grain output perhaps the second largest ever. Fruit and

vegetables are abundant in all markets. The current shortages primarily reflect distribution problems around the country, especially in urban areas.

Nonetheless, food (supplies and prices) assumes a very prominent role in Polish politics. Several of the post-war changes in governments were precipitated by food riots and strikes over price increases. Food availability and prices serve the public as important barometers of economic progress, since people shop frequently (often daily) for food and food expenditures are such a large proportion of personal disposable income (on average as much as 65 percent, before the August 1 price hikes).

The immediate availability (shipments during the remainder of the year) of donated foodstuffs would send at least three important signals. It would provide concrete evidence of western support of the new government, it would provide reassurance to the Polish people, and most importantly, it would help assure Polish citizens that their government can provide essentials while putting the mechanisms in place to produce tangible long-term improvements in living standards. Thus, the temporary shipments would serve both a political purpose and provide important economic benefits as well.

#### The 1990 Situation and Needs

Temporary assistance through donated commodities to augment food supplies until the next crop season is important, but abundant production next year is even more important for the longer term. If provided attractive economic incentives and access to production inputs, farmers will respond with output increases. Polish farmers have shown their resilience over many decades while hampered by the central planning. Now, with food prices less controlled and raw farm prices free to reflect supply and demand conditions, farmers are expected to respond to growing incentives with greater output. This, in turn,



should reduce food prices in the urban areas by next fall, producing early results of the reforms that will be clearly evident to all Polish people. This further contributes to political stability and would boost support for the reform program.

There are several critical aspects to the development of this scenario. Meat supplies must be increased, but because of the biological processes involved, considerable time is required to rebuild livestock herds. One means of stimulating production increases, especially of pork, is immediate inclusion of high protein feeds in the commodity donations. Poland produces virtually no high protein feeds, such as soybeans or corn grain. (The exception is rapeseed meal, and production is small relative to needs; there is capacity to process into oil and meal only about one-half of the 1.5 million tons produced.) As noted, this year's harvest produced abundant feedstuffs which can be supplemented by grains supplied by other donors. If augmented with high protein feeds, these would enable considerable expansion of the swine herd and perhaps poultry output as well.

To expand food output quickly, farmers must be assured of access to the production inputs necessary. Many of the essential products must be imported, requiring very scarce convertible currency while others are provided by the state monopolies. For farmers to respond to the new incentives, the input supply and service sector must become responsive to farmers' needs. The same is true for the processing-distribution system which must reflect both consumer needs and retail price signals back to the farm level. Thus, for farmers to expand food output by next year, other components of the food system—input supply and processing and distribution—must not be allowed to remain impediments.

For next year, at least, the domestic input supplies will need to be augmented with donations or purchased imports. Fertilizers and pesticides are in chronically short supply (and especially to private farmers). Appropriate pesticides not only would boost output, but would help reduce post-harvest losses which are very considerable for some commodities (e.g., perhaps as much as 25 percent of the potato crop in some years). Also, other inputs such as spare parts for machinery, tires, batteries, tools, etc. could materially boost the short-run output of both crops and livestock.

This suggests that an assistance program provide food commodities and high protein livestock feeds immediately, with other production inputs made available in time for next year's crop season. This approach would improve political stability in the very near term and enable time for tangible progress to be achieved in the food area.

Having suggested these specific actions, some comment on the means by which this assistance is provided is in order. Extreme care must be taken to ensure that the donations do not become counterproductive. Several considerations merit noting:

- o Coordination. It is important that U.S. bilateral assistance be carefully coordinated with other donors and with Polish authorities, to avoid oversupply of some commodities, and handling, transport and storage bottlenecks.
- o Potential Price Effects. Extreme care must be taken to minimize potential adverse effects of the donated commodities and goods on the very fragile markets that only now are beginning to operate. After over four decades of mostly administered prices, there is not yet full appreciation of the effects of sudden increases in supplies in local

markets nor of the possibility for adversely affecting farmers' incentives. There is little historical experience for estimating such price impacts, hence special caution is warranted.

- o Distribution. There is considerable merit wherever possible for distributing the commodities and goods through the private sector rather than solely through the state operated apparatus. Some cooperatives, private businesses, and entrepreneurs do exist who have the capacity to receive and distribute goods around the country. In fact, the very organization of this effort through the private sector could prove highly instructive.
- o Monetization. Much of the commodities and goods to be provided could be sold into the economy for local currency which in turn could be used in various ways to assist in achieving the greater market orientation of the economy and in facilitating private sector development.

#### The Longer Term

##### Research and Extension

The Borlaug mission generally was quite optimistic about the potential of Polish agriculture. The agricultural science base is particularly impressive. It is estimated that private farmers now achieve only 50 percent to 70 percent of the genetic potential of the available crop varieties and livestock breeds. The constraints to greater crop output thus are the management practices employed and the lack of appropriate production inputs (fertilizers, veterinary medicines, etc.).

The livestock sector, like the crops, has a well-organized national breeding program that has produced a livestock population of reasonably high

genetic potential. But, productivity, feed utilization efficiency, and quality of production is low. This results from inadequate supplies of protein feeds, feed supplements, and veterinary supplies, and inadequate forage harvesting technology and equipment, and inadequate processing.

While the agricultural science base generally is adequate, several shortcomings are evident. It suffers from compartmentalization, and from inadequate communication among scientists in the same fields as well as across disciplines. This results in duplication and wasteful use of the scarce resources. This also inhibits integration of scientific information focused on specific crops or problems. That is, there is no place where fertilizer response, weed control, insect control and other research knowledge are brought together in packages to boost yields of a particular crop.

While the research program is making a substantial contribution to farm sector development, the extension service is much less effective. In fact, it is viewed as a very serious obstacle to improved productivity of private farms. Major problems include poor communication with the research institutes, poor organization, inadequate training of personnel, and underfunding, producing shortages of effective teaching materials, vehicles, fuel, etc. Substantial improvements in performance likely will require fundamental restructuring as well as increased budget allocation for training and equipment.

#### Farm Inputs

The farm production inputs available to private farmers come from both on-farm production and the state industries. Any imported inputs are purchased by foreign trading monopolies and distributed by other state enterprises. The manufactured inputs—fertilizers and lime, pesticides,

machinery and parts, etc.—as well as many services such as veterinary services, are produced and delivered by state enterprises. Many of the manufacturing facilities, such as the fertilizer plants, are old and in poor repair, and fall far short of the capacity to meet requirements. And, some critical inputs such as pesticides are not produced domestically and must be imported.

Production inputs have been in chronically short supply to private farmers despite declared state policies of equal treatment for both the private and socialized farm sectors. Moreover, much of the input production is oriented to the needs of the large state farms and consequently ill-suited for the smaller farms. This is especially true for farm machinery where the need is great for all types of appropriately-sized machines. Also, the supply of spare parts and the system by which they are distributed have been chronic bottlenecks, resulting in the underutilization of the machinery capacity that does exist.

#### Food Processing

One of the major constraints to more effective utilization of the food now produced, and to improved food quality is inadequate processing. The inadequacies involve both technology and capacity, and pose a major limitation to expanding convertible currency exports of food products.

Much of the raw farm product processing is by state-owned enterprises in large scale, widely dispersed facilities. Small farmers have difficulty transporting products to these sites, and increased post-harvest losses are the result. Expanding competition in the food processing and distribution sector implies the development of more processing facilities that will compete actively for farmers' raw products. While there is substantial interest in

expanding and upgrading processing facilities and capacity, full modernization will require technology that is available only through convertible currency purchases. Obtaining that investment capital and ensuring its repayment is a major consideration. Likewise, the absence of capital markets makes assembling the required local currency for investment in the short run by private sector interests very difficult.

#### The Forestry Sector

The substantial national forest resource is largely state owned (80 percent), and timber prices are administered. Private woodlands are small and produce little marketable wood, largely because of the absence of economic incentives.

Tree research and genetic programs merit greater attention, but research in many other areas could yield big benefits as well. For example, there has been little transfer of technical information from the west for almost ten years. Significant improvements could be achieved solely with this information and some training. The sector's manufacturing operations are antiquated, and improving products will require plant modernization as well as improved quality maintenance techniques.

Certain of the Polish forests are being damaged by pollution. One stark example perhaps of global importance is developing in the Sudety Mountain region of southwest Poland. In an area exceeding 200,000 hectares, the growth of spruce and fir forests is seriously reduced and trees already are dead on a spreading area of more than 20,000 hectares. The suspected cause is exhaust from commercial burning of brown coal in Poland and neighboring countries. Little sophisticated monitoring equipment is available, as well as staff

expertise and other resources, to investigate the problem which has implications for other areas of the world.

#### Investment and Credit

Although Polish agriculture is dominated by private ownership, the financial mechanisms for investment and the amounts invested are largely centrally controlled. While the private sector has demonstrated a strong tendency to save and invest, it is handicapped by the limited financial options and mechanisms. Credit availability is limited because economic conditions, especially high inflation, discourage deposits and savings. Buildings and machinery dominate private investment.

Central decisions now allocate investment of government funds to a combination of state business enterprises and public works projects. But, both private and central investment decisions have been distorted from their proper focus on improving well-being, productivity, and efficiency by high rates of inflation, political allocations at all levels, preference for large state enterprises, the pervasive network of subsidies and tax preferences, and by the burden of the large external debt. The reduction of such distortions with the introduction of financial markets promises major improvements in the productivity of agricultural investment and in the amount of credit and savings available to invest. Such markets will require changes in methods of both public and private investment analysis to include the financial feasibility calculations for private enterprise that are commonly required in private financial markets in market economies.

#### Long-Term Needs

Poland has an impressive natural resource base and an agreeable climate for agricultural production, providing the potential for substantially greater

output. An overriding conclusion of both Borlaug missions is that more of the potential is not being realized because the centralized system greatly distorts incentives, causes major resource malallocations, and creates bottlenecks at all levels. Now that the system actually is being changed, the opportunity is emerging to greatly improve agriculture and the food economy.

A key aspect of U.S. and other western assistance thus should focus on facilitating the greater market orientation of the economy. Although agriculture has more of a market orientation than other sectors and likely can respond quickly, changes in the entire economy are required at the same time.

There is wide agreement that any successful reform of the economy depends on easing the burden of the crushing external debt. Grappling with servicing that debt now not only severely restricts any room to maneuver in the trade sphere, but also effectively prevents all but a trickle of critically-needed new capital.

The longer-term development of the farm and food sectors will require substantial investment of both local and convertible currency capital. Means must be found to mobilize that capital and to ensure its placement in the most effective uses. A variety of sources will be required for the convertible currency investment such as the proposed Enterprise Fund, World Bank loans, OPIC loans and guarantees, perhaps other guarantees, expanded joint ventures with foreign partners, project financing by western banks, and individual investment.

Mobilizing local investment by the private sector rather than state sources first will require stabilizing the chaotic currency situation, then stabilizing the domestic price level, and then developing the capital market structure necessary to attract savings and deliver investment funds. Restored



public confidence, capital markets and financial institutions could attract not only local currency but also the not insignificant amount of convertible currency estimated to be held by the population.

The economic transformation also can be facilitated by the provision of technical assistance in all areas and at all levels. For example, few of the institutions required to support a market economy exist, such as the collection and widespread dissemination of market prices from various locations, the use of grades and standards in pricing farm products, and effective commodity markets such as livestock auctions. Likewise, information is sorely lacking in the capital, credit, and investment areas where everything is needed from organization of capital markets to training in project financial feasibility analysis. On the technical side, assistance in restructuring, training, and implementation of an effective agricultural extension service could prove highly beneficial. These are all areas in which the U.S. has experience and expertise and could quickly mobilize assistance packages.

There is a unique opportunity in Poland at this time to further democratic ideals and establish the market economy that experience has shown reinforces and strengthens those ideals. The economic transformation is without precedent and its successful conclusion will require a careful blend of political and economic measures.

STATEMENT OF JEFFREY D. SACHS, PROFESSOR OF ECONOMICS,  
HARVARD UNIVERSITY

Mr. HAMILTON. Mr. Sachs.

Mr. SACHS. Mr. Chairman, thank you very much for the opportunity to be here with you this morning.

This is a matter of grave and pressing concern to the United States and I hope I can provide you with some insight into the short term crisis that Poland is now facing in their economy.

First, let me say that I was not able to get testimony to the committee in time and I alerted the staff. I have been back from Warsaw 24 hours. I have submitted a very short memo and I will submit longer testimony for the record.

I have also given to you a letter sent to you and the rest of the committee from the new Deputy Prime Minister for the Economy, Mr. Balcerowicz. I spoke with him on the phone last night. He wants to express his gratitude to you for holding these hearings. I understand he will be with you and the committee Members next Monday and he is looking forward to that. He is eager to meet you and thankful for your interest in this.

Mr. HAMILTON. Professor Sachs, we do not have that letter yet. We will run a copy and make it a part of the report at this point.<sup>1</sup>

Mr. SACHS. Very good.

Mr. HAMILTON. Thank you.

Mr. SACHS. Let me associate myself with the remarks of Dr. Penn. I think what he stated with regard to agriculture is true for the Polish economy more generally and that is that the short-term problems are awesome but the long-term potential is also great.

We are not looking at a basket case economy for decades and decades. We are looking at a situation of extreme grave crisis where timely assistance and well targeted assistance can be of absolutely crucial importance in stabilizing the new democracy in Poland and allowing for a successful transition to a market economy.

While agriculture has great potential, I think that is true of the economy overall. there is no reason why a country that has the skills that the Polish people do, that sits in the center of Europe, have a living standard that is giving Polish workers \$20.00 a month wages.

We know the potential is vastly better than that if they are given time now to undertake economic reforms. I have been working in the last several months with members of Solidarity and in the last several weeks with members of the new government to help formulate a new economic program.

I am convinced they are dedicated and firm in their mission to transform to an efficient market economy, western style, as Mr. Bolserovich said in his speech to the parliament.

Solidarity has many points in view but I can say that the prime minister in fielding the team he has for the economy has put in place a group of so-called radical reformers who are absolutely dedicated to moving Poland as rapidly as possible to a western style market economy.

<sup>1</sup> See Appendix 1.

They know what they want to do. The problem, however, is that they are entering this period in a phase of extreme financial collapse. This financial collapse is so grave that it risks undermining the government and the risks taking away from the government the possibility of putting in reforms, stable reforms, and achieving stability in the short term so that they may never get to their long-term objective which is very clear.

The crisis is deep. It is profoundly complex. I should say that a transformation from a bland economy to a market economy has never been done successfully yet. When you add the problems of that transformation to the problems of hyperinflation, which Poland is now suffering, one can imagine the gravity and complexity of the task before this government.

Of course, this is a government in which the ministers are not experienced. That is an inherent fact in a situation in which the opposition has been deprived of the opportunity to exercise power for the last 40 years by one-party rule. One cannot blame Mr. Kiryon, the new labor minister, for being inexperienced when he has been in and out of jail in the last few years because of the former regime and he has said that getting their feet on the ground is an enormously difficult task for them and one we should view with all the sympathetic support we can muster.

The extent of the economic collapse is of huge proportion. Poland is only the thirteenth case of true hyperinflation in world history. That is defined by economists in circumstances where prices increase by more than 50 percent per month. The fact that this has occurred only 13 times in world history should indicate how extraordinary the events are.

I have been involved in trying to end hyperinflations in Latin America in recent years. I can state my professional judgment that this one can be controlled and tamed, that there is a well identified set of measures that the government can take to bring the situation to order but that doing it under the circumstances that Poland now finds will be next to impossible if they do not get timely financial assistance from the West.

The measure of the crisis is extraordinary and the political and intellectual complexities of the situation are grave. They need our assistance with all due speed. I have been stressing as George Soros, a colleague in this effort or I should say the real leader in this effort, has been stressing to the Polish people and to the government the need for a comprehensive approach to their problems.

Poland has been characterized by a process of partial reforms in recent years but the reforms have been ad hoc. They have not been technically well designed and they certainly have not accomplished the task of restoring stability and efficiency to the economy.

It is my diagnosis and I believe George's diagnosis as well that the great problem has been the lack of comprehensiveness in these reforms and the lack of boldness in many areas. They need to tackle the stabilization problem with great urgency which will require far stronger measures than have yet been undertaken in reducing subsidies and closing the deficit, unifying the exchange rate, they have to deal with the problems of fundamental reform of a state-owned economy to a private economy.

That involves two things. First, it involves the process of ending regulations that now limit the nascent private sector from developing and growing. There are many such regulations and they can be eliminated very quickly. I think the will is there. The new minister of industry is the leader of the major private sector organization in the country and that is a good sign of dedication to moving quickly to a private economy.

The other aspect is privatization of part of the state sector. They are dedicated to a program of large scale privatization but it is very complex and one we may discuss in the questions and answers.

Finally with privatization and liberalization, they also need a program of international assistance and debt relief. This involves relief not only on their Paris Club debt or government to government debt, but as well on their commercial bank debt which is a significant burden on the economy.

Poland urgently must be part of the Brady Plan. I would hope the Brady Plan gets going faster and once it does, that Poland is a prime candidate. In the memo I gave you I outlined my view of the kind of specific financial assistance Poland needs to end the hyperinflation. This assistance from the West must be conditioned on the Polish government undertaking reforms which will be the counterpart needed to make the joint part of the effort successful in ending the hyperinflation.

From my discussions with the Polish authorities in the new government I am convinced they are ready to take these steps but they are very dangerous and risky steps and they do require the backing of the West in order to enhance their probabilities for success.

The kind of financial assistance, if I can outline it briefly, involves in my view four basic elements: first, as has been shown throughout history, the key to ending a hyperinflation is stabilizing the currency. As has also been shown throughout history a key measure for stabilizing the currency is an emergency stabilization loan from the outside which gives backing to the currency. I believe Poland can and must move quickly to a unified exchange rate and a stable currency and I believe the West can provide invaluable fundamental assistance in helping to do that by providing a stabilization loan of \$1 billion or something in that range to back the currency.

That should go to build foreign exchange reserves at the Central Bank of Poland. It should be made available only if Poland takes counterpart measures making it possible for them to stabilize. Those actions will result in a unification of the currency and sharp restrictions on budgetary expenditures. There is need for an immediate agreement with the International Monetary Fund for a one-year standby loan, about \$700 million. IMF moves at a pace that is determined by the G-7 countries. If they make clear to the executive board of the IMF to move quickly, a program with the IMF can be put in place by November 1.

Given the financial urgency of the situation, I think we ought to make clear this is a time table that is absolutely necessary. A third

part of the financial package is a structural adjustment loan of the World Bank in the order of \$.5 billion. In my view I think that much is necessary. That should support relocation of workers, severance payments, unemployment insurance. As a major restructuring of the economy takes place in 1990, that is as the real non-financial counterpart to the other moves that the Polish government will have to do.

Incredibly enough, the World Bank has not only shown enthusiasm for what has been going on in Poland, it has gone out of its way to say we are going to go slow. I find this unconscionable and unbelievable. My colleague in Warsaw said the headlines in Warsaw said yesterday was the announcement the World Bank will go slow on its loans. This is a tragic situation, very unnecessary and unwise for the international institutions to be sending such signals right now rather than understanding the crisis, understanding the gravity of the situation and understanding the difficulty of coming into office in the midst of a hyperinflation without preparation. The World Bank and IMF are sending very bureaucratic signals if I may say so and the wrong kinds of messages.

The fourth part of the financial package should be relief on Poland's debt involving short and long-term measures. In the short term it basically involves tacit forbearance for Poland's non-payment of interest over the next 12 months. There is no way Poland can service its commercial banks or Paris Club debt now. It is out of the question.

In the longer term there will have to be renegotiations to reduce the burden of the debt down to levels that can be serviced. In the next few months we will have a defacto situation where Poland will be unable to pay the debt and that should be acknowledged as an obvious counterpart of a hyperinflationary condition.

All of this aid should be conditioned. Poland must undertake strong reforms. This aid will not work unless there are counterpart measures from the Polish government. We should not be there lecturing and pointing fingers, the situation is difficult enough, but we must make clear that this aid requires that Poland put in place a workable stabilization program which will require a diminution of the wage stabilization scheme which is inimical to long-term stabilization. Stabilization of the currency and unification of the debt is needed to allow Poland to move ahead quickly. Assuming the aid will be available, assuming they take the measures, if the government moves rapidly to prepare the measures by the beginning of the year, it will be possible to have in place the necessary things for fundamental stabilization and I think in six months we can look at zero inflation.

That may seem remarkable looking at a situation which is running at 5000 percent annual rate, not the 150 some have said. We could return to price stability. I have seen it with my own eyes such a quick return. I have seen it in several Latin American countries but it requires a joint, determined, rapid, expedited process of assistance from our side and signaling the availability that it will come and the movement of the Polish government to put something in place rapidly before they are greatly undermined by the financial conditions.

Thank you, very much.

[The prepared statement of Jeffrey Sachs follows:]

PREPARED STATEMENT OF  
 Professor Jeffrey Sachs<sup>1</sup>  
 Harvard University  
 September 19, 1989

### Emergency Assistance for Poland

Political leaders in the West know well the extent of long-term failure of the Polish economy. Few, however, appreciate the remarkable extent of economic and financial collapse in the past few months, during the period of between the June elections and the formation of the Solidarity-led government in September. The new government assumes power in a situation of grave and immediate economic risk, characterized by a rampant hyperinflation and a collapse of key consumer goods markets.

The chances for success of the new government, and for the continued peaceful transformation of Polish society, will be immeasurably enhanced by the rapid provision of financial assistance by the Western governments. Such assistance will be vital in permitting Poland to stabilize the currency, a central step in the anti-inflation program. It will also be vital in raising the confidence in the Polish population in the government's stabilization program, and will thus make it far easier for the government to obtain the necessary wage restraint from workers at the beginning of the anti-inflation program.

Poland should receive many kinds of assistance in the future (e.g. technical assistance as well as financial assistance), but now it basically needs cash support in order to carry out a stabilization program within the next few months. Given the completely depleted levels of the liquid foreign reserves in the central bank, Poland needs an very quick cash infusion to back the emergency stabilization program.

In my opinion, the following are crucial elements of financial support within the next 90 days (please note that this list is my own, and has not been endorsed by the new government):

- (1) a \$1 billion balance-of-payments support loan from the U.S., Europe, and Japan, to be announced at the time that the government launches its shock program;
- (2) a one-year IMF standby loan of \$700 million, to be announced at the time that the government launches its program;
- (3) an agreement (or at least implicit understanding) of all of Poland's creditors (Paris Club, commercial banks, socialist countries) that debt service payments will not be made

---

<sup>1</sup>Galen L. Stone Professor of International Trade at Harvard University, and economic advisor to Solidarity. The ideas in this memo are my own, and do not reflect an official position of the new Government of Poland.

for the next twelve months. A more definitive set of negotiations on long-term debt reduction for Poland can begin early in 1990. The \$860 million per year of commercial bank interest currently paid by Poland represents a very significant fraction of monetary emission, and thus must be refinanced as one part of the stabilization program.

(4) a \$500 million Structural Adjustment Loan from the World Bank. This loan should help to finance the severance payments and unemployment insurance that will rise markedly as workers relocate after the needed sharp cutback in investment spending on heavy industry.

In addition to these forms of financial assistance, there is also the need for short-term food assistance, as is now under preparation.

Despite the obvious and vital interests of the West in the success of the new Polish government, there has been remarkably little movement by the international institutions or the Western governments in mobilizing aid. U.S. officials seem to misunderstand Poland's real financial needs (for example, the fact that a limited but quick infusion of cash is vital to successful stabilization), and are therefore far too cautious in getting involved. Remarkably, matters seem to be somewhat stalemated at this crucial moment.

There is reportedly the possibility of a quick increase in financial assistance from Japan, since there now exists an excess of Japanese ODA funds available for disbursement. U.S. support for increased Japanese lending to Poland would be useful in mobilizing such funds.

### Background Information

The intentions of the new government under Prime Minister Mazowiecki are clear: to make a dramatic turn to a market economy. The key positions are all filled by well-known reformers, and in two cases by key members of the nascent private sector (the designated Ministers of Housing and Industry are, respectively, the heads of the new confederations of private business in Warsaw and Crakow respectively). Dangerously, though, the virulence of the economic collapse could well cripple the government even before the longer-term reforms begin to take hold.

The Polish economy has entered into a period of open hyperinflation. While the data are not yet available, it appears likely that prices will rise by more than 50 percent in the month of September. During the eleven day period August 28 - September 7, the dollar rose against the zloty by 54 percent, from about 7,800 zloty to 12,000 zloty. Food prices to the consumer have risen by an estimated 500 percent since the beginning of July for



several major food groups.

The hyperinflation has wreaked havoc on the Polish economy, especially since the non-market structure of the economy is completely ill-equipped to adjust to the burden of explosive price increases. As an example, despite the very sharp increases in the relative price of food in the past two months (resulting from the cutbacks in food subsidies and the decontrol of prices of foods that were in short supply), the food availability in Polish cities has worsened rather than improved. This seems to be due to two factors. First, food processing in meats, grains, and dairy products, is carried out by three giant monopolistic factories. These factories did not raise their procurement prices paid to farmers during July and August in line with the explosion of prices on the consumer level. Second, farmers are refusing payments in local currency, because of the rate at which the zloty is losing value combined with the absence of acceptable financial alternatives (the farmers do not trust the banks, and the process of dollarization is very limited in the rural areas). The result is that farmers are hoarding foodstuffs and contributing to the grave crisis felt in the cities.

Of course, such special factors may be susceptible to special measures, but only if the new government is able to identify such bottlenecks very quickly, devise practical solutions, and gain sufficient control over the bureaucracy to carry them out. Given the rigidities in the economy, there are no doubt many areas of crucial bottlenecks that must be resolved in the coming weeks if a collapse of the markets for important consumer goods is to be avoided.

The hyperinflation itself results from an explosion of credit creation combined with a flight from the currency into dollars and durable goods. With the rapid increase in zloty notes in circulation, households are buying and hoarding any goods that make it to the shop shelves. They are also shifting their portfolio of money holdings from zloty to dollars, contributing to the collapse of the exchange rate. The exact sources of the credit explosion are not precisely known, because of data lags and because the outgoing government has not yet made available some of the crucial information. It seems, however, that much of the explosion of credit results from a sharp increase in subsidies and nominal wage expenditures during 1989. As the political situation of the outgoing government deteriorated, the central bank made little effort to restrain credit demands by state enterprises, for fear of provoking layoffs, strikes, or civil unrest. Another significant part of the credit creation results from the payment of interest on the foreign commercial bank debt.

As in most hyperinflations, the real solutions in Poland will have the ironic and dangerous effect of causing a further sharp jump in prices before the inflationary process can be brought under control. To end the hyperinflation will require a

sharp cut in subsidies (mainly in the areas of subsidies to energy, food, and exports) and a steep devaluation. These measures will reduce the budget deficit, and cut the printing of zloty, but they will also lead in the immediate future to an acceleration of price increases. The key, and most difficult part, will be keep wages from rising in line with the price increases: the deficit can be cut only if wage increases do not offset the savings from the subsidy cuts. Measured real wages will have to fall, but in return the inflation tax on workers will be lifted. The anti-hyperinflation strategy will also involve a very sharp cut in investment spending in the next few weeks, with the risk of provoking a sharp jump in unemployment.

Financial assistance from the West can be vital in allowing the government to regain financial control. It is well-known that a currency is more easily stabilized if it is backed by foreign exchange reserves even if those reserves are never explicitly used to defend the currency. (A good example is the U.S. \$1.5 billion aid to Israel in 1985 to help the Bank of Israel stabilize the Shekel in the context of an overall stabilization program). Merely the presence of the foreign reserves in the central bank can calm fears of a currency collapse, and thereby restore the expectations of stability. In turn, expectations of stability are vital to creating an atmosphere conducive to wage restraint among workers.

#### Economic Policies of the New Government

The new economic team is devoted to radical reform, to convert Poland to a market economy. There is no doubt that they will aim for quite dramatic reforms, including: tax reform to encourage the growth of the private sector; free convertibility of the currency; the development of a private capital market; liberalization of restrictions on foreign investment; large-scale privatisation of the state sector; and so forth.

Nonetheless, these actions will take time. The first priority is to end the hyperinflation, which will require a large set of painful budget cutting measures. These measures will include: a sharp rise in energy costs; a sharp rise in interest rates; a cutback in investment spending; a large devaluation and unification of the exchange rate. Such measures are necessary, but they could well provoke social unrest if they are not well understood, and in they are not backed by adequate international support.

#### Financial Assistance in the Longer-Term

The measures described earlier are intended to support an emergency stabilization plan of the new government, in order to end the hyperinflation. Further aid will be important in later years, in order to help cushion the Polish population during the painful (and as-yet-never-accomplished) transition from a

socialist economy to a market economy. Such longer term aid should include the following:

- (1) Participation by Poland in the Brady Plan, for a reduction on the overhang of commercial bank debt. The bank debt totals about \$8.5 billion, of which the U.S. exposure is less than \$1 billion. The debt should be reduced by half or more;
- (2) Reduction of Poland's debt to official bilateral creditors (Paris Club), which totals about \$23 billion, of which U.S. exposure is less than \$3 billion. This debt should also be reduced by about half;
- (3) A three-year Extended Arrangement with the International Monetary Fund, together with parallel lending from Japan;
- (4) Structural Adjustment Lending from the World Bank, to support the privatisation of industry, the development of a private capital market, and the strengthening of Polish private agriculture. The world bank lending should also be accompanied by Japanese co-financing;
- (5) Lending from the industrial countries to give credits to the nascent private sector, such as in the plan suggested by Senator Simon. U.S. aid of this sort will be most effective if it is combined with similar contributions from other countries.

# Helping Poland Help Itself

By Jeffrey D. Sachs

**A**fter 44 years of Communist rule in Poland, Solidarity leader Tadeusz Mazowiecki forms a new Government today committed to re-establishing a parliamentary democracy and a Western-style market economy. As throughout their history, the Poles are taking up the banner of Western ideals not only for their own sake but for ours.

The success of the new Government will greatly strengthen the prospects for peaceful reform in the Soviet Union and the rest of Eastern Europe, and thereby immeasurably contribute to Western security.

Poland's efforts require our immediate financial support and not just our applause. Mr. Mazowiecki's Government inherits a state of total financial collapse left behind by Communist planners. The resulting instability poses grave risks for the new Government. The West, by providing emergency loans and debt relief, can help Poland through the transition to a market economy.

After that transition, Poland will grow dramatically in the nutritive soil of a market-based economy and need not become a permanent economic ward of the West. In the end, timely assistance will pay for itself many times over by allowing sharp cuts in the hundreds of billions of dollars that we and our allies now pay for the defense of Western Europe.

Poland's financial collapse is staggering. Hyperinflation has broken out, as the outgoing Government re-

sorted to printing worthless currency to pay its bills. The prices of basic commodities have been rising by more than 50 percent per month, and in some cases by several hundred percent. Tax collections have broken down as a result of surging inflation, and heavy interest payments on the foreign debt owed to banks are also swelling the budget deficit.



The steps needed to end hyperinflation are risky and could create serious social conflict. The main step is to close the deficit, in large measure by cutting subsidies and, in part, through debt reduction. But the cut in subsidies will itself produce a round of large price increases. This "corrective inflation" is familiar to economists but not to families suffering from the inflation.

If workers successfully press for higher wages to compensate for the end of the subsidies, the deficit will not fall. And if the Government has to resist powerful pressures for wage increases, the result could be a wave of strikes, civil unrest and violence.

History in many countries has shown that a stabilization loan from abroad, in conjunction with an anti-inflation program, can significantly raise the chances for stability. The U.S. made such a loan to Israel in 1985 with great success. The loan makes possible immediate stabilization of the currency, and thereby stops the rise in import prices. This gives workers confidence that the Government's anti-inflation program will be successful, encouraging wage restraint.

The West should offer a loan to Poland within the next few weeks, to coincide with the launching of Poland's stabilization program. The new Government has not yet formulated a specific aid request but its needs are discernible. The central banks of the industrial countries should lend Poland about \$1 billion to support the Polish currency; the International Monetary Fund should grant a one-year loan of about \$700 million, tied to its usual budget-cutting conditions; the World Bank should lend about \$500 million to ease the relocation of workers from state firms to the private sector.

Later on, Poland will need further help, mainly a sharp cut in the \$39 billion foreign debt that hangs heavily over its future and further lending by the I.M.F., World Bank and the Western Governments.

Over several years, U.S. financial support — loans and debt relief — might reach about \$3 billion, money that can be recouped many times over in defense savings. Our allies would help with perhaps three times that amount, so that the U.S. would not carry the brunt of the burden.

But by far the biggest source of help for Poland will come from Poland itself, in the form economic reforms that will create a highly productive market economy in the center of Europe.

Mr. HAMILTON. Thank you, Mr. Sachs.  
Mr. Soros?

#### STATEMENT OF GEORGE SOROS, SOROS FUND MANAGEMENT

Mr. SOROS. Thank you very much for inviting me. I came back from Poland last night, where I met with the Minister of the Central Bank and the key members of the new government. I will be very brief, because I think Jeffrey Sachs gave you a clear outline of the problem.

The Polish Government is facing an impossible situation. The present system, which is a mixture of market and directives, has broken down. The price structure is distorted, and inflation exaggerated the distortions, but any attempts to liberalize prices reinforces inflation.

The whole process is now out of control, giving you the situation of hyper-inflation. For instance, when food was decontrolled, some prices jumped six to eight times. Coal, which is not only controlled by subsidizing, would have to be raised more than ten-fold to be brought into line with world prices.

The official exchange rate, which was just raised 50 percent, is 1,500 zlotys. The open market rate is 10,000 zlotys and is rising at a rate of 30 to 40 percent a month. The government is vacillating between trying to fight inflation right away and introducing a comprehensive program.

In my opinion, the fight against inflation is doomed to failure. There is no way that market forces that have been released can be harnessed again. Perhaps the inflationary explosion can be dampened, but a population which is not fully aware of what lies ahead will not feel any benefit, and the goodwill which the government currently enjoys will be dissipated in the process.

The only policy which has a chance of success is for the new government to put a distance between itself and the present situation, to introduce a comprehensive program of monetary stabilization and structural reform, which will take several months to prepare.

It may then try to smooth the path from here to there without accepting blame for the very hard times which lie immediately ahead. Such a comprehensive program must have a large foreign component, debt relief and new money to provide a war chest for the day the zloty is made convertible.

Western governments ought to make it clear now that such help would be available when the time comes. In my opinion, Western governments, and this government in particular, have been remiss in this regard. They emphasize that aid must be conditional.

There have been remarks about "kids in the candy store." They are right to emphasize that aid has to be conditional, but they forget about the other side of the equation, that a viable program is conditional on Western support. That is a great pity, because the Polish Government is wavering in the face of an historical task. Opportunities may be lost.

When I talk about that, I don't just mean Poland, but the East-West relations in general. I returned from Poland with a very heavy heart.

## CONDITIONING ASSISTANCE

Mr. HAMILTON. Thank you for your statements. Thank you, gentlemen. We will proceed under the five-minute rule.

Let me turn first to how the aid should be conditioned. How do you do that? What conditions and what specific steps are needed? What is the link between aid from the West and reform? You all want reform. You all say we have to have aid. How do we work out the linkage, the conditionality?

Mr. SOROS. I think you should distinguish between two kinds of aid. One is the emergency aid like food, which is needed immediately, and is not conditional. The other is the large-scale financial support that is necessary for the stabilization program.

There you have a very simple test, a litmus test, namely the zloty has to be made convertible, because it is for that you need the reserves. So, the condition is a simple one.

Mr. HAMILTON. Mr. Sachs?

Mr. SACHS. I think in practice, the aid would come in conjunction with a program of the International Monetary Fund. The International Monetary Fund is charged by our government with responsibility for verifying that the plans that will be put in place will be sufficient for stabilization.

While none of us is absolutely thrilled with all the details of the IMF programs, I would put my faith in the basic process that we should recognize the kinds of assistance that is needed.

Mr. HAMILTON. How long will it take the IMF to put that together?

Mr. SACHS. That depends on us, Mr. Chairman.

Mr. HAMILTON. All of you believe we should give food aid immediately, unconditionally, and you spell those things out in the statements that you have given us. Let's call that short-term aid that is not conditioned. Now, the longer-term aid we would announce now is saying we are prepared to give longer-term aid, provided you take the steps to meet the IMF conditions. Is that correct?

Mr. SACHS. Longer term is 60 to 90 days.

Mr. HAMILTON. What is short-term?

Mr. SACHS. You used the terms. I would not have used exactly those terms. I think everything is short-term right now. The situation is financially explosive. That is a true hyper-inflation, a very rare beast. Unfortunately, it is becoming more common, but it is still a rare beast.

They have to move quickly. At the minimum, if we push like crazy, we can get an agreement by November 1 and money disbursed by the end of the year.

Mr. HAMILTON. We are not doing that.

Mr. SACHS. Absolutely not.

## POLITICAL IMPORTANCE OF PRESIDENT JARUZELSKI

Mr. HAMILTON. This is a political, not an economic question. President Jaruzelski has the power to step in and say go home to the Parliament. What is the risk of that? Suppose we commit ourselves to a substantial aid program and do the things you are telling us to do, and he says, "I don't like it"?

Mr. SOROS. I think you put your finger on a very important problem here, because while the government is inclined to have this radical reform, the Central Bank, the President of the Central Bank is nominated by Jaruzelski and is only responsible to Jaruzelski, so Jaruzelski does hold the strings.

Mr. HAMILTON. It doesn't worry you too much, though? You think we should move ahead, even though there is that risk out there?

Mr. SOROS. I think once the government commits itself to a program that would become, let's say, effective January 1, then I think we ought to move ahead supporting such a program. The outlines would be available in advance. It only becomes effective, let's say, 90 days out, and that is the way to go to create a discontinuity between the present situation and the new situation.

Mr. HAMILTON. Mr. Sachs?

Mr. SACHS. I think it is clear that a full program cannot be put in place for a while. It should be understood, though, that one cannot say we will do nothing now, and we will move January 1st. You cannot have holding over the people's heads the idea that the official exchange rate will move up by a factor of eight on a given date. That is not the kind of thing that can be announced and planned for.

It leads to chaos in the intervening period. There are many things that can be undertaken between now and January 1, some which cannot be done quickly and some which must be done quickly.

There is a process that has to get under way. The situation is one of chaos now inside the government and in the country. Getting that process started is difficult, because these are people who are walked into an incredible hurricane.

Mr. HAMILTON. What is the risk of Jaruzelski—he is not a market-oriented man, he is a Communist, is he not?

Mr. SACHS. I would not accept that characterization one way or the other.

Mr. HAMILTON. He probably does not have the confidence in the markets that you or others have. What is the risk of him saying six months from now, "I don't like the way you are going, we are just going to shut down the parliament"?

Mr. SOROS. Through his influence, the present government doesn't announce the comprehensive program and loses the virginity so to speak. It becomes embroiled in a piecemeal effort to restabilize an unstable situation.

So as long as the government is willing and able to put together a package, we ought to be part of that package. They can't put it together because they do not get the encouragement from us that we would support it.

Mr. HAMILTON. You don't think there is much of a risk of what I am talking about?

Mr. SACHS. I think the risk will come in a simpler way, that is if civil unrest becomes widespread, which is very possible in these circumstances, then all bets are off. We have seen how this kind of financial instability can lead to civil unrest. I believe that is where the greatest dangers are. I believe it from my own discussions.

Mr. HAMILTON. Civil unrest would give Jaruzelski the excuse he might be looking for?

Mr. SACHS. That is why structuring a program creating confidence is the most important thing.

#### COST OF AN ASSISTANCE PACKAGE FOR POLAND

Mr. HAMILTON. Mr. Sachs, what is the total cost of your package?

Mr. SACHS. Let me start out with a slight evasion. It depends on how you count IMF. If you ask about budgetary appropriations this year, my package requires nothing because the IMF and World Bank can move ahead quickly, the stabilization loan, the money from the U.S. contribution, which is perhaps \$200 million out of the \$1 billion, can come from the exchange stabilization funds of the Treasury without any appropriations.

We know the President has the authority to lend. We should go out to the G-7 countries and get organized to make that loan package and the ESF from the Treasury is an effective vehicle. We can do it for free. That is how we do everything these days. I don't think anything has to appear on the budget.

Mr. HAMILTON. Don't tell me that. I have heard that so many times.

Mr. SACHS. If you want to play it from an accounting point of view, you don't need cash.

Mr. HAMILTON. Mr. Lantos.

#### THE NEEDS OF HUNGARY

Mr. LANTOS. Let me first commend all three of the witnesses for a remarkably thoughtful, insightful and analytical presentation. You have led the way with a degree of creativity and with a degree of generosity which is unprecedented. I want to personally express my appreciation for the leadership you have shown.

My concern is, and I understand all of you just came back and you are under the spell of having left Poland yesterday. My concern is that I have not heard much about the way you view the situation in Hungary. I would like to begin by asking Mr. Soros and the rest of you how you see the stabilization program and the reform program for Hungary.

I would like you to switch gears and move to Hungary. Hungary is in many ways an infinitely easier problem because the Hungarian economy is not a basket case. It has serious problems, but it is functioning.

I would appreciate if the other two panelists could comment.

Mr. SOROS. I think Hungary should take second place in your deliberations because in Poland, we are now at the moment of truth. What happens in the next few months is going to be critical for the future.

In the case of Hungary, first of all, as you said, Hungary is not a basket case. A lot of what has to happen is in the sphere of the private sector. There has not yet been a change in government so we don't have the political conditions where a significant, comprehensive reform package could be enacted because there is not a government yet that can ask the people for the kind of sacrifices that would be involved.



So I would say right now Poland does take first place. I say that even though I am of Hungarian origin and I am very engaged in Hungary.

Mr. LANTOS. Professor Sachs?

Mr. SACHS. I think the kinds of measures outlined in the Senate bill and the bill I understand you are introducing will be of extreme help to Hungary. They are the right kind of measures and the right order of magnitude, it seems to me very appropriate.

What is not needed for Hungary is the emergency stabilization package. One area where Hungary has lost out and will be critical in the future is effective debt reduction for Hungary.

The irony in Eastern Europe has been that while some of these governments have abused the domestic population, the banks have been treated very royally. Hungary has paid all its bills on time but it has not done much for stability in the long term.

Assuming that Hungary continues to engage in the political and economic reform process that it is now doing, it is imperative for their future that we support a deep debt reduction that will give them some hope and take the debt overhang off the future developments in the economy.

The language in the Senate bill I think is very well targeted. If one adds in the debt reduction, I think you provide a framework for Hungary in which these reforms can take place.

Mr. LANTOS. Mr. Penn.

Mr. PENN. Mr. Lantos, I am not well enough informed to comment about the Hungarian situation.

Mr. LANTOS. I share both of your views, but I believe that the conclusion of the roundtable negotiations in Hungary which were successfully concluded just a couple of days ago does establish the political framework for the political reforms to take place.

While you are correct that the parliamentary elections are not going to take place until early next year, yesterday, with the Chairman and Mr. Solarz and a few other colleagues, we met with the Speaker of the Hungarian Parliament who represents the governing party.

The question was, what if the elections turn out so that the governing party will be a minority, which I think is very likely, almost certain. There was a clear-cut and unambiguous response that they will accept that role, that is, either go into a coalition or accept the role of a minority.

With that in mind, don't you think there is an element of urgency there too for us to act because clearly, while there is no famine or civil disturbances on the horizon, there are very severe problems. To put things on hold for five or seven months could create very serious difficulties. We don't want to act only when we are confronted with basket cases. We would like to take some preventive measures.

Mr. SOROS. I am glad you are giving me a chance to correct what I said before. I am sort of carried away by the urgency and the magnitude of what we are confronted with in Poland because I think it is kind of crucial for the whole process that is currently taking place. But I do very much endorse the measures that you have put forward and I think that they will play a very important

and useful role, and, indeed, since there is a lead time, they should not be neglected. I think I was carried away, as I said before.

Mr. LANTOS. Mr. Sachs, would you like to comment on that?

Mr. SACHS. I would just agree with you, Congressman, that the situation is urgent also in Hungary and it is a very delicate moment. It is very important that we show our support for this process which is clearly under way.

I think in terms of immediate measures, measures on the foreign debt, we can send signals which would ease their external financial burden and we should do so.

Mr. LANTOS. Thank you.

Mr. HAMILTON. Mr. Solarz?

#### U.S. ROLE IN A STABILIZATION FUND FOR POLAND

Mr. SOLARZ. I want to pay tribute to you, Mr. Chairman, not only for holding these hearings but for your willingness to move forward with this legislation. Your leadership will be absolutely essential in terms of our ability to get something absolutely significant through the Congress.

If you succeed, Mr. Chairman, which I hope you will, I have a feeling that your name will be remembered by Poles in the same way that we Americans remember such Poles as Kosciuszko, someone who came to the rescue of a country at the moment of its greatest peril.

You panelists spoke about what our country can do in general, but I would like you to distinguish between what the President can and should do and what the Congress can and should do.

Part of our problem here is that we seem to have an administration which is politically paralyzed and which responds in a paltry fashion to not only historic opportunity but to historic obligation. There are some things that the Congress cannot do, that it can encourage, that it can exhort, but that it cannot do. But there are other things that we can do.

So I would like you to be able to tell us as specifically as you can, what do you think the Congress should do to be helpful in the next few weeks?

Mr. SACHS. Effectively the answer is, scream. I want to also make very clear the urgency of this.

Of course, one thing the Congress could do is appropriate monies over a Presidential veto. That is about the only way to force through leadership if leadership is not coming from the administration.

Mr. SOLARZ. You have seen the Cranston bill?

Mr. SACHS. Yes.

Mr. SOLARZ. Do you support that?

Mr. SACHS. Absolutely.

Mr. SOLARZ. Should we go beyond that?

Mr. SACHS. From my point of view, thinking about the stabilization problem, there is a key section in there which exhorts leadership on several important monetary fronts. I don't frankly see how you can go much beyond that.

In terms of monies, I would be delighted if there were explicit appropriations for stabilization funds.

Mr. SOLARZ. Supposing we unilaterally authorized a \$1 billion stabilization fund for Poland. I mean a few years ago we appropriated \$1.5 billion for Israel when it was having difficulties. And we have provided without legislative mandate stabilization monies for Mexico, too.

Do you think we should do this unilaterally?

Mr. SACHS. Congressman Solarz, the irony of this situation is that while the importance to the West of these actions is of supreme concern and critical importance, the amounts of money at stake are very small. You have just indicated and I think it is very important that we supported the Israeli stabilization ourselves.

A billion dollars is economic feed these days in international finance. We give it ever time a country has a debt payment to our commercial bands. For Poland we don't seem to be able to move. If we don't get the multilateral commitment, I think we should move unilaterally.

Mr. SOLARZ. We have \$20 billion in stabilization funds. If it looks like the Treasury is dragging its feet, do you think it would make sense for us to mandate the use of \$1 billion, through the Exchange Stabilization Fund, for Poland?

Mr. SACHS. I think it would be an act of great wisdom and importance to do so if they dragged their feet. I believe Europe and Japan are ready to participate. There is an ironic situation now and I have been told personally by important officials in the Japanese Ministry of Finance that there is ODA money of Japan's sitting around because Indonesia and Thailand recently turned down offers, that could go quickly to Poland, but no one has asked them. So we are in a situation where it is absence of leadership, not the dollar amounts that is causing the missing element right now.

But this ESF money is perfectly appropriate. It is in the spirit of the use of that money. It is much better to use it for this purpose than many purposes for which it has been used. The whole \$1 billion would then come from the United States. If it were possible, I think it would be a fantastic investment on behalf of the American people.

Mr. SOROS. I think it would be wonderful if Congress acted to goad the Administration into action but I would not use the word unilaterally because I think whatever large amounts are available has to be conditional on the Polish government coming up with the program.

#### REFORMS REQUIRED IN THE POLISH ECONOMY

Mr. SOLARZ. There does seem to be a consensus that in exchange for our support we have every right to expect Poland to undertake a number of economic reforms. Given our experience in the 1970s, it would be imprudent not to insist on that. I would like you to elaborate a little more on precisely what kind of reforms you think are needed and what kind you think we should insist on. Mr. Sachs has talked about short term measures involving budget deficits, but I have more in mind the structural reforms bringing about a transition from a state-controlled to a more market oriented economy.

No country has ever done this before. I hear a lot of generalities about how they have to privatize and demonopolize. What precise

reforms in terms of privatization and demonopolization and in terms of moving toward a market oriented economy would you like to see them make?

Mr. SACHS. I would like to ask that I might at a later date submit a more detailed statement on this. I have prepared some documents for the Polish government in recent weeks on exactly this question.

I should also indicate that of course these are complex issues in terms of sequencing of measures. I have helped to organize and have been working with a task force in the Polish parliament that is working on this and I think they will submit to this body an English language version of their conclusions to give you an idea of their vision of what should be done.

There are two parts of this transition process sometimes called privatization from below and privatization from above. Privatization from below is the idea of removing the barriers on forming private firms. They are now one man operations because of tax restrictions, licensing and so forth.

All of this can quickly be swept aside. I believe they could have from night to day a fundamental revision of the laws regarding the existing private sector.

Marginal tax rates are 95 percent. They make me into a supply side economist. I preach low and flat tax rates as a key concept and ending of trade licensing, ending restrictions on setting up new firms. There is a whole list of measures that I believe can be quickly done. Next is what to do with the existing state structure which is 80 percent of industry.

That is a complicated question. This is where Solidarity economists and many other economists have spent a long time arguing and they have thought through these issues. One is privatization, let's call it, in the Thatcher style of cleaning up businesses and selling them to the public. That can take time. There is another style that creates defacto ownership at the beginning before things are cleaned up.

I think they will arrive at a compromise so they can accelerate the process of privatization and not have to take a year for every big firm which is what we have seen in other countries that are trying to do this. I will submit more detailed information but you have a dual process of opening up the arena for private activity, foreign firms, joint ventures.

Mr. Walesa said his philosophy is "Let anybody do anything they want." That is my philosophy. I think that can be done from below almost overnight. From the top is the more difficult and arduous problems but they are coming up with solutions for that as well.

Mr. SOROS. I think there is a much greater clarity on this issue of longer range reform than there is on the short term issue in Poland today. Actually the people in the government are pretty unanimous about what they want to do. There is a lot of debate but that is outside parliament, in the parliament there is some opposition to the measures that the government wants to put in. I think the emphasis on privatization is perhaps slightly over done because the first task of reform is to apply hard market conditions to the state sector to establish equality between the state and the private sector.

Then the second task is to establish a better balance between the state and private sector, instead of 80/20 maybe 50/50 or 80/20 the other way I think. This is pretty well understood and I think the question of the monopolies because the whole industry is basically has a monopolization structure. In my opinion actually it is rather conducive to gradual reform because these monopolies are very efficient so they do need monopoly profit.

They have excessive profits and that will attract private entrepreneurs. But the private entrepreneurs also need excessive profits. So having these monopolies facilitates the transition.

#### AGRICULTURAL ASSISTANCE FOR POLAND

Mr. GEJDENSON. Professor Sachs you were doing quite—until you got to supply side economics. If there was a government under siege militarily this government would not be so hesitant to provide assistance, if it was tanks and planes and bombs and bullets, we would be getting in lines to load the planes.

When it comes to an orderly change of government all of a sudden the wind is out of our sails. For 40 years we have condemned the Soviet domination in the East Bloc but now we can't get ourselves to do what we need to do. On making some of the assistance less costly, should we look to making the Polish government eligible for PL-480? Would that be better than the sales under the CCC program?

Mr. PENN. We are essentially using the PL-480 program now for the food aid shipments. It is all coming out of CCC stocks largely.

Mr. GEJDENSON. Are the rates—are we giving them the grain or if we are selling them the grain, what is the rate there?

Mr. PENN. These are donations, the commodities going now are donations. Although they are sold for local currency, the currency is spent in the country.

#### PROPOSED DEBT REDUCTION FOR POLAND

Mr. GEJDENSON. We hold several billion dollars worth of debt for CCC exports and Senator Leahy proposed legislation to forgive most of this debt. Does that create trouble for us elsewhere in the world? We discussed once either we need a bankruptcy or reorganization system where certain economic conditions would trigger restructuring the debt.

Do we have problems that we create for ourselves if we do this?

Mr. SACHS. I am all in favor of debt reduction for Poland although I don't believe it to be an urgent matter. The reason is that Poland is not servicing the debt right now. If we forgive it or not, it does not involve any cash savings. I believe the appropriate forum for debt reduction is in the Paris Club.

We should as a general matter for our government take a far more general attitude toward restructuring. I don't think it would be particularly helpful or necessary to move on Poland a loan in that regard although I congratulate the Senator on the spirit for the initiative. It is not necessary right now. Two billion dollars in cash is better than \$2 billion in debt relief when you are not servicing the debt.

What the need now is psychological help but also a cash reserve fund to stabilize the zloty. That kind of relief will not give it to them.

Mr. HAMILTON. A vote is pending on the consideration of the rule. I want to express my thanks to the panel. You have filled in some open spots with your expertise. We will be in touch with you as this legislation develops and we will very much appreciate your consideration of the request.

We have three more witnesses and unless the majority leader is ready, we will begin with Lane Kirkland, President of the AFL-CIO.

[Recess.]

Mr. HAMILTON. The subcommittee will resume. We will begin with the majority leader, Mr. Gephardt. The Chair would like to express his appreciation for the presence of the majority leader and his interest and leadership on this question of aid to Poland. He has been in touch with me and with other Members of the committee to express his interest and has encouraged the subcommittee and the full committee of the House Foreign Affairs Committee and of course other committees of Congress to move forward on this legislation.

We are very grateful to you for your presence and your testimony. As you may know, we have had testimony already from several Members of Congress, Mr. Dingell, Mr. Rostenkowski, and Marcy Kaptur. We have a lot of interest in this legislation. We look forward to your testimony.

**STATEMENT OF HON. RICHARD A. GEPHARDT, A  
REPRESENTATIVE IN CONGRESS FROM THE STATE OF MISSOURI**

Mr. GEPHARDT. Thank you. I want to thank the Chairman and the committee for allowing me to be here today and for having this hearing. I want to personally say there are not two Members I have more respect for than the two who are sitting in front of me on the subcommittee today.

I am pleased that under your leadership this issue will be considered and that we will take action in the next few weeks. I also would express deep feeling on the part of so many members of the Democratic Caucus. I am sure there are Republicans who share these feelings but I wanted especially today to deliver the strong feelings on the part of the Democrats in the House. By me being here and Chairman Rostenkowski and Chairman Dingell and Marcy Kaptur I think you are getting a sense of how much we care about what the policy will be on behalf of the United States with regard to Poland and Hungary and to the whole situation in the Eastern European nations.

The work of this committee will have a profound effect on the lives of the people of these two countries, Poland and Hungary, and a dramatic impact on the future of Europe and East-West relations. The communist world led by Poland and Hungary is moving rapidly away from Marx and Lenin and toward Madison and Lincoln.

The selection of a non-communist prime minister, the legal recognition of the Catholic Church and the moves toward pluralism

and economic reform have created opportunities that were unthinkable just a few years, probably even a few months ago.

Yet when George Bush went to Poland this summer he was like a poker player with a winning hand but no chips and no nerve to back it up. The Polish leaders essentially told the President replace martial law with the Marshall Plan. Soviet President Gorbachev facing increasing economic pressures at home and anxious to shed the cost of his eastern empire signed off on the deal.

But when Lech Walesa asked him the \$10 billion question, the President could only give a \$100 million answer. How ironic it is that at the very moment when American ideals of democracy and economic freedom are sweeping the globe, America's ability to support these changes is starting to decline.

We can now enhance our national security, not through expensive and dangerous strategic systems but by helping the Polish people break through the Iron Curtain from their side. Such a policy is cheaper, more effective and more cost efficient than the status quo reliance on hardware alone. This is one of those situations in which doing the right thing will also save us money.

Democracy in Poland is still fragile. The link between economic and political reform is essential. One-third of the Polish people remain in poverty. The waiting period for an apartment is probably 30 years, food lines are a fact of everyday life. Unless there are visible improvements in basic living conditions, there is little hope that democracy can or will survive.

Now is not the time for the niceties of bookkeeping. Now is the time for imagination and innovation. Visionaries don't wear green shades. The President's proposal, \$100 million for a Poland-America enterprise fund and a couple of smaller programs is a first step and I am pleased to co-sponsor the legislation but it is a clearly inadequate response to the challenge at hand.

While we are waiting others are acting. Although not seeking nor suited for the role of leader of the free world, Japan and Western Europe are being forced into the vacuum created by our inaction. Under the direction of George Bush and his predecessor we spent more than \$2 trillion to be able to project American strength through our military might. But the harsh reality as we approach the 21st century is that true strength is measured in megabytes not megatons.

The President has focused on what we cannot do to help Poland. He said we cannot risk offending the Soviets, we can't spend more money or establish precedents that would apply to other countries. We need to turn this thinking on its head to what we can do rather than what we cannot do.

In several key areas this committee has developed and the House approved imaginative programs to assist Poland, especially H.R. 2550, and the Foreign Aid Authorization Bill. I believe this committee should mold these programs, the Administration proposal and other good initiatives together into an 11 point Polish economic recovery initiative.

I would like to briefly outline the specific proposals that I think should be part of a combined assistance package for Poland. The first step is to give the Administration every penny it has asked for, an authorization of \$100 million. Used creatively as seed

money to encourage a coordinated western effort to encourage pluralism this can go a long way. But we must do far more.

We must expand the \$10 million already in the House appropriations bill for Poland next year as a down payment in support of the Administration's private sector initiative. We need to get these funds flowing quickly to encourage private development in several key sectors of the Polish economy.

We should immediately ship large quantities of surplus American food to Poland, tying this aid to the development of programs to encourage Polish agriculture. We must instruct our delegates at the Paris Club to support relaxed conditions for the rescheduling of Polish foreign debt including Poland's official debt to the United States. We must instruct our delegates at the IMF and World Bank to support substantial and timely support for Poland's economic reform program.

We must allow the Overseas Private Investment Corporation to approve insurance for investment projects to Poland which would provide an important incentive to private Americans to help the effort for Polish recovery through private investment and joint ventures.

We have to expand the system to democracy-enhancing institutions there, such as the AFL-CIO and the National Endowment for Democracy programs to support Solidarity. We must encourage the Export-Import Bank and Trade Development Corporation to start new programs in Poland.

We must make Poland eligible for duty reductions under the Generalized System of Preferences to help export development. We must assist private export groups to contribute to Polish recovery using as a model the outstanding work of the Rockefeller Foundation and the Ford Foundation to revive the Polish farming sector.

Finally drawing on the Administration's designation of Poland as an AID recipient last week, we must activate a variety of small but important bilateral and multilateral assistance programs including training and education programs to provide the skills needed for a modern economy.

The most immediate important action we can take is to begin shipments of food aid. In 1948 when the Soviets were constructing the Iron Curtain, Harry Truman responded with the Berlin Airlift to bring essential commodities to a divided city.

Today when we have a chance to bring down at least a part of that curtain, we must respond with similar dedication. American corn, wheat and other surplus commodities must begin to flow into Poland by the ton. We must provide immediate relief for food lines and demonstrate clearly to the Poles the benefits from this new pluralism. We must act immediately to help relieve Poland's debt burden, at the World Bank and IMF meetings this month we must push for a coordinated sympathetic view toward Poland.

The Paris Club should meet to reduce interest rates on Poland's debt, with a commitment by the Polish government to use additional exchange for economic restructuring. The IMF should then launch a standby program to help Poland weather the storm of painful economic reforms. The World Bank should chip in with loans to make social improvements, housing, health care and the environment.



The United States must not be perceived as being dragged into these measures, afraid of the precedents we might establish. We must lead the effort.

Next week when Secretary Baker meets with the Soviet Foreign Minister he should point out our stake in Polish recovery and urge the Soviets to suspend repayment requirements on the \$3 billion Poland owes them. Finally we must gear up many U.S. official and private programs, since the removal of restrictions the pace of contact has not picked up, Cultural and scientific exchanges, projects of voluntary agencies, perhaps the Peace Corps—these and other people to people programs must begin. Poland has opened its doors to the community of nations and these projects can make sure the door will not be slammed shut.

Mr. Chairman and Members, I know the budgetary and institutional constraints that you and this committee will face in putting together a comprehensive program. But the eyes of history are upon us. In 1776, America's hour of greatest need, Poland sent heroes like General Pulaski to help us fight for our freedom. History will judge us harshly if in the hour of Poland's greatest need we can offer nothing but an empty hand in return.

Mr. Chairman, I appreciate the fact that you are holding these hearings and that you have gone forward with a leadership role. I am confident that you will produce for our colleagues a package that we can be proud of. I will do anything I can in my limited role to help you do that and make possible any needs that you have with regard to the Floor and other problems that you may have in bringing this package forward.

I cannot think of anything more important to our citizens and their self-interest than being able to make this package available and to see our way through to the goal of enhancing these historic changes in Poland.

[The prepared statement of Hon. Richard A. Gephardt follows:]

**Testimony by Majority Leader Richard A. Gephardt  
Before the House Subcommittee on Europe and the Middle East  
On U.S. Response to Developments in Poland**

**September 20, 1989**

Mr. Chairman:

I'm pleased to have this opportunity to testify before the Subcommittee on Europe and the Middle East exploring possible U.S. responses to the historic changes now taking place in Poland and Hungary.

The work of this Committee will have a profound effect on the lives of the people of these two countries, and a dramatic impact on the future of Europe and East-West relations.

The Communist world -- led by Poland and Hungary -- is moving rapidly away from Marx and Lenin and toward Madison and Lincoln. The selection of a non-Communist Prime Minister, the legal recognition of the Catholic Church, and the moves towards pluralism and economic reform have created opportunities unthinkable just a few years ago. And yet when George Bush went to Poland this summer, he was like a poker player with a winning hand, but no chips -- and no nerve -- to back it up.

The Polish leaders essentially told the President, "Replace Martial Law with a Marshall Plan." Soviet President Gorbachev, facing increasing economic pressures at home and anxious to shed the costs of his Eastern Empire, signed off on the deal. But when Lech Walesa asked him the \$10 billion question, the President could only give a \$100 million answer.

How ironic it is that at the very moment when American ideals of democracy and economic freedom are sweeping the globe, America's ability to support these changes is starting to decline.

We can now enhance our national security, not through expensive and dangerous strategic systems, but by helping the Polish people break through the Iron Curtain from their side. Such a policy is cheaper, more effective, and more cost-efficient than the status quo reliance on hardware alone. This is one of those situations in which doing the right thing will also save us money.

Democracy in Poland is still fragile; the link between economic and political reform is essential. One-third of the Polish people remain in poverty; the waiting period for an apartment may be 30 years; food lines are a fact of everyday life. Unless there are visible improvements in basic living conditions, there is little hope that democracy will survive.

Now is not a time for the niceties of bookkeeping; now is the time for imagination and innovation. Visionaries do not wear green eyeshades. The President's proposal -- \$100 million for a Polish-American Enterprise Fund and a couple of smaller programs -- is a first step, and I am pleased to co-sponsor his legislation. But it is clearly an inadequate response to the challenge at hand.

While we are waiting, others are acting. Although not seeking, nor suited for, the role of leader of the free world, Japan and Western Europe are being forced into the vacuum created by our inaction. Under the direction of George Bush and his predecessor, we spent more than two trillion dollars to be able to project American strength through our military might. But the harsh reality, as we approach the 21st Century, is that true strength is measured in megabytes -- not megatons.

The President has focused on what we can't do to help Poland. He says we can't risk offending the Soviets; we can't spend more money; we can't establish precedents that would apply to other countries. We need to turn this thinking on its head -- what we can do.

In several key areas, this Committee has developed and the House has approved imaginative programs to assist Poland, especially in HR 2550 and the foreign aid authorization bill. I believe that this Committee should mold these programs, the Administration's proposal, and other good initiatives together into an eleven-point Poland Economic Recovery Initiative.

I would like to briefly outline for you the specific proposals that I believe should be part of a combined assistance package for Poland. Then I would like to focus on a few of them.

The first step is to give the Administration every penny it is asking for: an authorization of \$100 million. Used creatively as seed money to encourage a coordinated Western effort to foster private sector development and pluralism, this can go a long way. But we must do far more.

We must expand the \$10 million already in the House appropriations bill for Poland next year as a down payment in support of the Administration's Private Sector Initiative. We need to get these funds flowing quickly to encourage private development in several key sectors of the Polish economy.

We must immediately ship large quantities of surplus American food to Poland, tying this aid to the development of programs to encourage Polish agriculture.

We must instruct our delegates at the Paris Club to support relaxed conditions for the rescheduling of Polish foreign debt, including Poland's official debt to the U.S. government.

We must instruct our delegates at the IMF and World Bank to develop substantial and timely financial support for Poland's economic reform program.

We must allow the Overseas Private Investment Corporation to approve insurance for investment projects in Poland, which would provide an important incentive to private Americans to help the effort for Polish recovery through private investment and joint ventures.

We must expand assistance to democracy-enhancing institutions in Poland, such as AFL-CIO and National Endowment for Democracy programs to support Solidarity.

We must encourage Eximbank, the Commodity Credit Corporation, and the Trade Development Program to initiate appropriate new programs in Poland.

We must make Poland eligible for duty reductions under the Generalized System of Preferences, enhancing Poland's commitment to export-driven development.

We must assist private U.S. groups to contribute to Polish recovery, using as a model the outstanding work of the Rockefeller Foundation and the Ford Foundation to revive the Polish farm sector.

Finally, drawing on the Administration's designation of Poland as an AID recipient country last week, we must active a variety of small but important bilateral and multilateral assistance programs. These include training and education programs to provide the skills needed for a modern economy.

The most important immediate action we can take is to begin shipments of food aid. In 1948, when the Soviets were constructing the Iron Curtain across Europe, Harry Truman responded with the Berlin Airlift to bring essential commodities into that divided city. Today, when we have a chance to bring down at least a part of that Curtain, we must respond with similar dedication.

American corn, wheat, and other surplus commodities must begin to flow into Poland by the ton. We must provide immediate relief for food lines and demonstrate clearly to Poles the benefits from a new pluralism.

We must act immediately to help relieve Poland's debt burden. At the World Bank and IMF meetings later this month, we must push for adoption of a coordinated, sympathetic view toward Poland.

The Paris Club should consider proposals to reduce interest rates on official debt, stretch out debt servicing, and limit

repayment to a portion of Polish foreign exchange earnings, with a commitment by the Polish government to use additional exchange for economic restructuring.

The IMF should then launch a stand-by program to help Poland weather the storm of painful economic reforms. The World Bank should chip in with loans to make social improvements housing, health care, and the environment. The United States must not be perceived as being dragged into these measures, afraid of the precedents we might establish: we must lead the effort.

Next week, when Secretary Baker meets with the Soviet Foreign Minister, he should point out our stake in Polish recovery, and urge the Soviets to suspend repayment requirements on the \$3 billion which Poland owes them.

Finally we must gear up many U.S. official and private programs. Since the removal of sanctions, the pace of contact has not picked up as it should. Cultural and scientific exchanges; projects of private voluntary agencies; perhaps even the Peace Corps -- these and other people-to-people programs must begin. Poland has opened its door to the community of nations. These contacts can help ensure that the door will not be slammed shut again.

Mr. Chairman, I know the budgetary and institutional constraints that you and this Committee will face in putting together a comprehensive response to support Polish democracy and economic reforms. But the eyes of history are upon us. In 1776, America's hour of greatest need, Poland sent heroes like General Pulaski to help us fight for our freedom. And history will indeed judge us harshly if, in Poland's hour of greatest need, we can offer nothing but an empty hand in return.

CONTACT: DEBORAH JOHNS/DAVID DREYER  
202/225-0100

Assistance Package for Poland

1. Provide an authorization of \$100 million for the Polish-American Enterprise Fund, as proposed by President Bush.
2. Supply large quantities of food aid from U.S. surplus stocks; these commodities will be sold in Poland for local currency, which will be used for agricultural development projects to help Poland feed itself.
3. Instruct our delegates at the Paris Club to support relaxed conditions for future rescheduling of Polish foreign debt, including Poland's official debt to the U.S. government.
4. Instruct our delegates to the World Bank and IMF to support new assistance for Poland to re-structure its economy
5. Expand the existing Private Sector Initiative, under which \$10 million is being supplied to Poland in FY-90 to encourage private development in several key economic sectors.
6. Authorize the Overseas Private Investment Corporation to approve insurance for investment projects in Poland, which would provide an important incentive to private Americans to help privatized the effort to economic Polish recovery through investment in joint ventures.
7. Expand assistance to democracy-enhancing institutions in Poland, as with AFL-CIO and National Endowment for Democracy programs to support Solidarity.
8. Encourage Eximbank, the Commodity Credit Corporation, and the Trade Development Program to initiate appropriate new programs in Poland.
9. Make Poland eligible for duty reductions under the Generalized System of Preferences, enhancing their commitment to export-driven development.
10. Assist private U.S. groups to contribute to Polish recovery, using as a model the outstanding work of the Rockefeller Foundation and the Ford Foundation to stimulate Polish agricultural development.
11. Use Poland's new designation as an A.I.D. recipient country to develop new bilateral and multilateral aid programs.

Mr. HAMILTON. We thank you very much, Mr. Majority Leader. You have not only given us a program with many specifics which would be incorporated into the legislation but you have challenged us as well with a most eloquent statement.

We are grateful to you for your leadership. Do any of my colleagues have comments or questions?

Mr. Lantos.

#### TIMIDITY OF THE ADMINISTRATION'S APPROACH

Mr. LANTOS. Thank you, Mr. Chairman.

First I would like to commend the majority leader for a powerful and substantive statement on what clearly is a historic issue. I would merely like to ask the distinguished majority leader to speculate a bit as for the reasons for the Administration's palpable timidity in approaching this issue. After all, for 40 years we have all been jointly struggling and working and praying and fighting for the kinds of changes we now see unfolding in Central and Eastern Europe.

For instance, there has not been an American politician since Jack Kennedy who would not have gone to Berlin pleading for the dismantling of the Berlin Wall. Most recently Mr. Bush did that. For all practical purposes the Hungarians functionally dismantled the Berlin Wall by opening up their frontiers to Austria. The Berlin Wall has now the validity of the Maginot Line after that had been circumvented. It is staggering to see the reluctance and even the anxiety with which the Administration is approaching this enormous historic opportunity. I would like to ask the majority leader to speculate on the possible reasons for that.

Mr. GEPHARDT. I think there are two obvious reasons. One, I think the President unfortunately clearly understands the difficult economic situation in which our country now finds itself, as you know, we have now run a string of nine years of federal budget deficits which are unprecedented in our history and it makes it very difficult to have any room for movement or change within the federal budget in order to address historic changing conditions like this one.

I think the gentleman also understands the magnitude of our trade deficit, the largest trade deficit any country has run in the history of the world. Our trade debt exceeds the combined trade debt of countries two through seven combined, Mexico, Argentina, Brazil, countries we think of as being horribly bankrupt, we now exceed them a lot even though we rarely want to admit that to ourselves. I think the President finds himself in a very difficult stance which by obvious definition creates some constraints on what he feels he can do.

Secondly, I feel that in a very real way our foreign policy is very conservative and almost to the point of being ossified. We are constrained by the world as we knew it. We have lived for 45 years with the cardinal tenet of our foreign policy being trying to hold on to an alliance in Western Europe so that we could contain Soviet expansionism.

It is very hard for, I think, the President and his people to be able to change quickly enough the underlying tenets of our foreign

policy when faced with the watershed change. I think that is unfortunate.

I think we have to be ready to move. That does not mean precipitous movement or unwise movement or putting ourselves in a position where if circumstances change back we are unable to change back to the old assumptions.

But I think it is incumbent upon us to deal with the world as it is today and as it is changing today before our very eyes.

So, I think for those two reasons, we are cautious and timid, to a fault; and we are not responding adequately to what is in front of us.

Having said that, I would just go back again to my hero from Missouri, Harry Truman, who in a very similar kind of time, with the tremendous change happening in the world, had the ability to lead us to change.

If you will look at the economic thing I just talked about, Harry Truman faced a much tougher economic situation than the one we are in today. We were in horrible debt from World War II. The last thing in the world American taxpayers wanted to hear was that they would have to dig into their pockets to pay for the Marshal Plan, or for NATO, or both.

But he convinced us that we had to do it in our national security interests. He convinced Americans that those dollars would save us dollars down the road. Of course, he was right.

Now I think it is incumbent upon us and the President to go to the American people and to say, this is an opportunity that we must not let slip through our hands; and that if we fail to spend these dollars today to take these leadership initiatives, we will pay even more in the future.

It is in our direct economic self-interest to do these things. That is leadership, being able to explain to people what is in their long-term self-interest. That is what we are failing miserably, in my view, to do today.

#### NEED FOR AMERICAN LEADERSHIP

Mr. LANTOS. If the Chairman will allow me one more observation, I fully agree with our distinguished majority leaders and allies.

What you are saying basically is that the shortage we face is not a shortage of funds, because funds clearly could be and would be forthcoming in Japan, from the European community, from Taiwan, from a lot of other sources.

What is in short supply is creative leadership with which to orchestrate a response by the non-communist world to this enormous historic opportunity.

I also believe that there is an insufficient appreciation of the fact that this historic opportunity is a fleeting moment. If, in fact, it is not fully taken advantage of by us now, not only is there a danger of a backsliding by Poland or Hungary or the Soviet Union, but the likelihood of Czechoslovakia or East Germany or some of the others coming the way of Poland and Hungary will also be set back by a number of years.

I want to thank the leader for his excellent comments.



Mr. GEPHARDT. Let me reinforce your point. What I called for in my testimony, and I am sure what others are going to call for today and probably already have, is leadership to bring about all of the strengths that exist both within this country and within our friends around the world who share our values to be able to address the needs of Poland now.

This is not—I have not called for huge expenditures. I have called for some additional actions on the part of the United States; but most of all, what I have called for is leadership to peace and bring together all of the strengths that exist.

Mr. LANTOS. When you say Poland, you mean Poland and Hungary?

Mr. GEPHARDT. Absolutely.

Finally, let's think for a moment about the reluctance that I think the leaders of Solidarity had in assuming the position that they have assumed. I suppose that there are a lot of reasons for that caution.

One of them, I am sure, was that given their circumstance, that they would not be able to produce results quickly enough for the people of the country and that they would be seen as failing in what they were going to set out to do.

They have now taken that leap of faith. They now must produce. And what they must produce more than anything, in my view on the part of the people of Poland, is hope and belief on their part that they can succeed.

That is why I emphasized in here increasing the immediate food aid, almost a Berlin airlift kind of effort, to put food stuffs on the tables of the people of Poland and Hungary so that they can continue to believe that this new government will succeed.

As you well know, eight- or nine-tenths of what a government can do in an economy is give people hope and create self-fulfilling prophecies, and the greatest thing this government now needs to do is to be able to do that. And we can help in a tangible way now.

#### MANDATING USE OF THE EXCHANGE STABILIZATION FUND

And I would pray that we could make that happen.

Mr. LANTOS. Thank you very much, Mr. Chairman.

Mr. HAMILTON. Mr. Solarz?

Mr. SOLARZ. Thank you very much, Mr. Chairman. I will be brief.

Let me say, first of all, that I think the willingness of Mr. Gephardt to lend leadership support to this emerging effort on behalf of Poland is extremely significant. It will undoubtedly lend some real impetus to your effort to move this through our committee.

I think this is an example of precisely the kind of leadership you were talking about, Dick.

I have two questions. First, there seems to be an emerging consensus that one of the centerpieces of any effort to help Poland ought to be an economic stabilization fund which will help them deal with some of the problems they have.

People are talking about something in the vicinity of a billion dollars. The legislation being marked up in the Senate Foreign Relations Committee today contains a sense of the Congress exhorta-

tion to the administration to move forward with this on a multi-lateral basis.

If the administration is, in fact, prepared to provide that kind of leadership, I think everybody would agree it's better to do it on a multi-lateral basis. We are not the only ones with an interest in the success of the Polish experiment in pluralism.

But if the administration should be unwilling, if it becomes clear over the next week that they are still dragging their heels and that they are not willing to move forward, how do you feel about our mandating the use of a billion dollars from our Exchange Stabilization Fund, which I gather now is about \$20 billion. It's under the control of the Treasury. It's an off-budget item.

It has been used for other countries in the past to help bring them over some difficult times on the theory that what we really need are actions, not just words.

It's fine to exhort the administration if there is some hope that they will respond; but if it is clear they are not going to respond, then this is one way to make concrete assistance available in a fashion that would not create Gramm-Rudman and other budgetary problems for us.

So my question is, would you be prepared to support an initiative along those lines if the administration is unwilling to move forward on a multi-lateral basis?

Mr. GEPHARDT. I am not aware of how this fund exactly works, but I take the facts from my friend who is very knowledgeable and would believe from the way it sounds, this is what we should and could do if we cannot get the administration to lead, to get other countries to help.

I would say this. I will go back to what I said before. Can you imagine if George Marshall had been talking about Gramm-Rudman or Harry Truman and had been saying, you know, the American people just have gone through this awful experience. We are nearly bankrupt because we fought this war. We lost all these lives. Now we just are too poor to do this.

So clearly, we have to take—we have to stop having green eye shade discussions and have leadership. This is a time for a leap to try to make things happen. That fund is clearly one of the vehicles that might be used.

#### APPEARANCE OF MR. LECH WALESA BEFORE A JOINT SESSION OF CONGRESS

Mr. SOLARZ. I couldn't agree with you more.

Finally, you may know that Lech Walesa will be in Washington during the second week of November. I think he is coming here as a guest of Mr. Kirkland, from whom we will hear shortly.

I think it is probably fair to say that more so than any other single individual, Mr. Walesa has been responsible for the events which are now unfolding in Poland. He clearly continues to exert enormous influence on the future of that country.

How would you feel about our inviting Mr. Walesa to address a joint session of the United States Congress when he is in Washington?

Let me say, there have been some precedents in the past for inviting non-heads of state to take advantage of that prestigious forum. I believe Lafayette was once invited to speak.

But here is a man who is at the center and in the leadership of one of the most extraordinarily significant political developments in the last half century, who won the Nobel Peace Prize, whose words, I think, the American people ought to hear.

I myself can think of no more appropriate forum for him to be given in order to deliver a message to the American people than a joint session of Congress. And I was wondering, Mr. Majority Leader, if you would be prepared to support such an invitation and to use your influence as Majority Leader of the House of Representatives to see if such an invitation could be extended.

Mr. GEPHARDT. I cannot imagine that we cannot figure out a way to have him appear, if not before a joint session, before the joint caucuses of the Republicans and Democrats of the House.

So there ought to be a way to do that. I think it would be very appropriate to do that.

Mr. SOLARZ. Thank you.

Mr. HAMILTON. Thank you very much, Mr. Majority Leader.

Mr. GEPHARDT. Thank you very much.

Mr. HAMILTON. Very pleased to have you with us.

Mr. Kirkland?

We are very pleased to have Lane Kirkland with us. He is, of course, the President of the AFL-CIO.

Mr. Kirkland, you have been sitting out there for quite a while. We apologize to you for that. It's been kind of difficult to keep this train on the track this morning.

We are very grateful to you for your appearance and your interest in this particular question. So we look forward to your testimony, and we thank you very much, sir, for coming to join us.

#### STATEMENT OF LANE KIRKLAND, PRESIDENT OF THE AFL-CIO

Mr. KIRKLAND. Thank you very much.

Mr. Chairman, distinguished Members of the subcommittee, thank you for this opportunity to testify on an issue of vital importance in the world. That is the success of Solidarnosc's dramatic effort to transform Poland.

I think it is fair to say the remarkable turn of events in that country is rooted in two historical truths, without either of which we would certainly not be here for this discussion today.

First and foremost of those is the spectacular courage and perseverance of the Polish workers who, without precedent and against overwhelming odds, have peaceably taken control of their government and are attempting to lead the way toward a stable Democratic existence.

For nearly a decade, the members of Solidarnosc risked their lives and withstood extraordinary harassment from entrenched power. Their example is a stunning declaration that the love of freedom is a natural aspiration in the hearts of men and women and one that cannot be permanently extinguished.

The second truth is that from almost the very moment of Solidarnosc's birth, through the initial 18 months of open existence,

through the years of banishment and martial law and through its rise to power, the AFL-CIO has provided substantial moral and material help to the cause. We helped keep them alive, and we believe our experience with the union—in particular our years of contacts with Lech Walesa and its other leaders—had put us close to the pulse of Solidarnosc and thus in a unique position to speak to what our own country can do to give these changes permanence.

One thing is for certain. The prospect of a lasting and stable Democracy in Poland is a limited time offer. Nothing is irreversible. What the United States Government does right now will have a most profound effect on the ultimate success or failure of the Polish experiment and quite probably on the hopes of Democratic activists in other countries around the world who are now looking to Poland's example.

It is our view, therefore, that the ascendance of a Solidarnosc-led coalition government both requires and deserves a substantial infusion of economic assistance from the West, led by a U.S. Government program of significant targeted aid and loans based on a fundamental recalculation of our foreign aid priorities.

I am sad to say that the administration's meager program of direct economic assistance is not up to the task. It reflects the thinking of accountants and not statesmen. Thus, the AFL-CIO urges Congress to take the initiative and approve an addition to urgently needed aid a package of assistance that provides at least \$400 million in each of the next three fiscal years to help rebuild the Polish economy.

This would include \$250 million a year to support a locally operated private sector capital fund that would provide modest grants to local business ventures.

Another \$100 million would go to a worker retraining fund to be administered privately by Solidarnosc through its existing grass roots structure for the purpose of helping those displaced by necessary plant closings and lay-offs.

In light of the current budget constraints, we suggest that this aid be funded in part by designating Poland a recipient country of the AID and then recalculating that agency's priorities and adding resources.

In addition, we support Senator Simon's proposal to allocate \$50 million from the Department of Defense budget to help modernize Poland's telephone and telecommunications infrastructure.

Further, we are asking Congress to do what it can to compel the support of the International Financial Community. This would include legislating U.S. support for World Bank and International Monetary Fund loans to Poland, while pressing that such loans be free of the typical IMF economic austerities and requirements to curb imports and push exports.

The AFL-CIO would also like to see Poland once again be eligible for Ex-Im bank loans. And if the President will not use his power to extend a waiver for this purpose, then Congress should step in and do it.

Clearly, Poland cannot thrive without debt relief, and we call upon our government to forgive that country's debts to the Commodity Credit Corporation, as well as to press for a generous debt

rescheduling program through the Paris Club and by the Soviet Union.

We also urge you to express the view that international economic assistance efforts to Poland should be coordinated through the Organization for Economic Cooperation and Development, to which the U.S. is a party rather than the European Economic Community, to which we are not.

The OECD, which emerged out of the Marshal Plan, has the technical expertise, the structure, and the history to give the program the best possible chances for success.

Finally, we urge the Congress to recognize the importance of its continued support for Democratic institution building in Poland. We ask for the authorization of an additional \$5 million, of which \$2 million would be provided to Solidarnosc through the AFL-CIO's Free Trade Union Institute, \$1 million for health care programs through Solidarnosc's Social Foundation, \$1 million through the National Endowment for Democracy for the development of an independent press, and various cultural and political organizations, and \$1 million to implement union-to-union exchanges between the AFL-CIO and Solidarnosc for occupational safety and health training, union education, and development of organizing skills.

Mr. Chairman, the rebuilding of Poland will require much more than a brief infusion of cash and a few crumbs of food. It will require a long-term program of sustained and thoughtful economic assistance. We believe our suggestions would help the program in that direction.

This is, indeed, a critical opening in world history. To come this far only to allow Poland's move to Democracy to wither and die on the vine would truly be one of our generation's greatest missed opportunities and a tragedy of monumental proportions.

Thank you. I will be happy to respond to any questions.

[The prepared statement of Lane Kirkland follows:]

TESTIMONY OF LANE KIRKLAND, PRESIDENT  
AMERICAN FEDERATION OF LABOR  
AND  
CONGRESS OF INDUSTRIAL ORGANIZATIONS  
BEFORE THE SUBCOMMITTEE ON EUROPE AND THE  
MIDDLE EAST, HOUSE COMMITTEE ON FOREIGN AFFAIRS  
ON U.S. AID TO POLAND

September 20, 1989

Mr. Chairman and distinguished committee members:

I welcome this opportunity to express the strongly-held views of the AFL-CIO on an issue of abiding importance to our members-- the success of Solidarnosc's dramatic effort to transform Poland.

The evolution toward stable democracy in Poland is an event of fundamental historical importance. The AFL-CIO believes that the emergence of a Solidarnosc-led coalition government requires the U.S. government to respond with a program of significant, targeted aid and loans based on a fundamental recalculation of our foreign aid priorities.

The recent dramatic events in Poland require a substantial infusion of U.S. and coordinated Western economic assistance to send a strong message of our support for democratic rule and an invigoration of the private sector.

For most of this decade the AFL-CIO has been a steadfast proponent of the interests of Solidarnosc in this country. We have assisted the Polish trade union throughout its history--

first in 1980-81 openly, and later, after the imposition of martial law, in the underground.

Because of our program of material and moral assistance to Solidarnosc, we have maintained a close working relationship with Lech Walesa and the union's leaders. We have come to understand their views about the direction in which their country must head. Now that Solidarnosc is faced with the challenge of governing a country confronting a deep economic crisis, we believe we have something to say about the assistance the United States government should provide.

It is my duty to note that the AFL-CIO is disappointed in the Bush Administration's exceedingly meager program of direct economic assistance. The program reflects the thinking of accountants and not statesmen.

We believe that in addition to urgently needed food aid, the package of assistance for Poland should at a minimum provide \$400 million per year in FY 1990, FY 1991, and FY 1992. Of course, such aid must be conditioned on Poland's continued respect for basic human rights, trade union rights, and the democratic process. In the context of the current budgetary vise, the AFL-CIO believes that the assistance program to Poland should be partly funded out of a recalculation of priorities for the Agency for International Development, of which Poland should be made a designated recipient country.

The AFL-CIO supports the funding of a large share of this proposed aid package through the rechanneling of AID development

assistance dollars. The AFL-CIO would further support a modest allocation of assistance funds for Poland's telecommunications infrastructure out of the Department of Defense budget, as has been proposed by Senator Paul Simon.

Any comprehensive aid program must also address strengthening democratic institutions in Poland -- foremost among them, Solidarnosc. Economic assistance programs and programs to strengthen Poland's democratic institutions should include the following:

a) A private sector capital fund for Poland, which would primarily provide grants of between \$20,000 and \$250,000 to local ventures in light industry and the service sector. Such a fund should be provided to a tripartite, non-governmental Polish entity established with the agreement of Solidarnosc and the government. Such assistance, however, should only be extended to enterprises that affirm in contract language their intention to respect basic worker rights, including freedom of association. Amount: \$ 250 million per year.

The board of the proposed Polish-American Enterprise Fund should include at least some U.S. labor representation.

b) A worker retraining fund to be administered privately by Solidarnosc in cooperation with the Polish Ministry of Labor. Funds would be used for economic assistance for job training for workers displaced by the likely closure of large factories and by



staff reductions. Assistance provided through the union would strengthen a mass-based organization that remains the main guarantor of the democratic process, and would bypass the incompetent and corrupt Communist-dominated nomenklatura that dominates the staffs of major ministries. A Solidarnosc-administered program would have the advantage that it is using already existing grassroots structures. Such assistance should be provided through a U.S. body similar to the enterprise fund, with a high proportion of jobs training specialists and trade union representatives.

The fund should be provided \$ 100 million per year for its work.

c) Assistance for modernizing Poland's telephone and telecommunications infrastructure should be provided in the amount of \$50 million. This funding should be supervised by a special oversight body of telecommunications experts from the U.S. private sector to ensure that aid is efficiently used by a ministry that is in the hands of the Communist Party and its nomenklatura.

d) The AFL-CIO strongly recommends that the Congress legislate positive U.S. support for World Bank and International Monetary Fund loans to Poland. In the case of Poland, as in the case of the developing world, the AFL-CIO believes that the U.S. should not support loans from the IMF that require borrowing

countries to curb imports and push exports to pay their debts. Nor would we support the typical IMF approach of economic austerities. Poland is very close to the brink of what its long-suffering people can tolerate.

e) We, likewise, favor Congress legislating a U.S. waiver to enable Poland once again to be eligible for Export-Import Bank loans for which the country currently is technically in default. Of course, the AFL-CIO also urges the President to extend such a waiver immediately and in advance of any Congressional action--an authority that is his under current law.

Clearly Poland's economy cannot thrive unless it receives some debt relief. The AFL-CIO, therefore, looks favorably on forgiving debts Poland owes to the Commodity Credit Corporation. We also support U.S. pressure for a generous debt rescheduling program for Poland through the "Paris Club." And we believe that the USSR should also be pressed to rescheduling some the debts it is owed by Poland.

f) The President's offer of \$100 million in food aid, amounting to about \$ 2.50 for every Pole, should be understood as an emergency measure. We support such emergency assistance efforts, but they should be regarded as separate from longer-term initiatives that seek to assist in the rebuilding of the Polish economy.

g) The AFL-CIO strongly urges that the Congress express the view that the Organization for Economic Cooperation and Development (and not the European Community, where the U.S. is not a party) be the locus of coordinated discussions among the democracies of economic assistance efforts to Poland.

The OECD-- which emerged out of the successful efforts of the Marshall Plan-- has the technical expertise to assist in the coordination of assistance programs to Poland. It, likewise, has advisory bodies that represent the views of labor and the business community.

h) We also very strongly feel that funds for labor market-related technical assistance programs, as proposed by the President, would be useful but should not come from the reallocation of current DOL funds. Rather, new funds should be authorized. The idea that \$4 million dollars (the amount in the Administration's proposed package) is adequate to meet Poland's forthcoming jobs crisis is simply not to be taken seriously.

i) Although economic aid to Poland is an urgent priority, no less important is continued support for democratic institution building. Congress should instruct therefore authorize an additional \$5 million dollars, of which \$ 2 million would be for assistance to the Solidarnosc trade union, provided as in past years through the AFL-CIO's Free Trade Union Institute; \$1

million for Solidarnosc's social foundation-- for health care programs; \$1 million for democratic institution building provided through the National Endowment for Democracy for assistance to the independent press and for the development of a variety of independent cultural and political organizations; and \$1 million be for union-to-union exchanges between the AFL-CIO and Solidarnosc, which have as their purpose occupational safety and health training, union education and organizing skills.

The recommendations I have made reflect what are responsible and realistic options for immediate assistance to Poland. They are built on a premise that the main internal requirement for the transition to democracy is the reemergence of a strong private sector both in the economy and in organizational and political life.

The AFL-CIO strongly urges the Congress to offer concrete assistance to Poland, and to do so in ways that help revive the ailing Polish economy while at the same time strengthening Solidarnosc, the one mass-based organization that is the principal guarantor of the democratic process. Such a process will lead to responsible economic initiatives, democratic stability and in the longer term the full integration of Poland into the world economy.

Mr. HAMILTON. Thank you very much, Mr. Kirkland.

We, of course, are aware of the close relationship that the AFL-CIO has had with Solidarity and the important role that you and your coworkers in the AFL-CIO have had in helping with the development and evolution of Solidarity as the major force in Polish society today.

So we are grateful for the leadership you and the AFL-CIO have shown. Therefore, your statement is of very special interest to us, and the recommendations you made are important.

We thank you, sir, very much for your testimony.

Mr. Lantos?

Mr. LANTOS. Thank you, Mr. Chairman.

I want to echo your comments and suggest that had it not been for Lane Kirkland's courageous and farsighted leadership during those very hard and difficult and dark days of Solidarnosc, we may not be celebrating this new day in Poland today.

I think it is important to recognize that as everybody is congratulating himself and everybody else, that a very special national tribute is due to Lane Kirkland and the leadership he has provided through the AFL-CIO to the survival and persistence of Solidarnosc.

I want to thank you for your statement and salute you for your farsighted and statesmanlike behavior.

Mr. KIRKLAND. Thank you, sir.

Mr. HAMILTON. Mr. Solarz?

#### USE OF THE EXCHANGE STABILIZATION FUND

Mr. SOLARZ. Thank you very much, Mr. Chairman.

Mr. Kirkland, let me associate myself with what both Chairman Hamilton and Mr. Lantos said. What the AFL-CIO has done for Solidarnosc will go down in the history of the American labor movement as one of the finest gestures which we have ever made as an expression of our solidarity with working people elsewhere in the world.

During those long, difficult years when they were in the wilderness, you helped to keep hope alive. I know for that you will have the eternal gratitude of the Polish people and the friends of freedom in Poland and our own country.

I have just one question. If the administration turns out to be clearly unwilling to move forward in terms of providing leadership in putting together a multi-lateral emergency stabilization assistance package of about \$1 billion to deal with the short-term problem that we have heard about today, what would be your feeling about our mandating in whatever legislation we move forward with here, in addition to your own recommendations, a requirement that we use our Exchange Stabilization Fund, which I gather has about \$20 billion in it, to give them the \$1 billion as a loan for, say, up to a year? I also understand that the Fund has the virtue of being off-budget so we don't get caught up in the Gramm-Rudman requirements?

Would you support such an initiative, if it is clear that the administration is not going to do it on a multi-lateral basis?

**Mr. KIRKLAND.** Absolutely. I do believe that we have the instrument to pursue with strong American leadership a multilateral approach. I think a multilateral approach to the long-term recovery of Poland and its emergence into the world of nations is desirable. The machinery exists. I don't think the United States should bear all of the burden alone. I think it should be distributed.

The OECD was established as the descendant of the Marshall Plan. It has been there since the Marshall Plan. It has been allowed to become a bit of a backwater. But it exists for the purpose of coordinating economic cooperation and development. I believe that since we are a major contributor and a major member—Japan is, Canada is, the entire developed free world is in that body—that it is an appropriate place to allocate burdens to develop the plan in cooperation with the appropriate institutions in Poland as was done after World War II.

We should aggressively lead such an effort and bear our share of the appropriate distribution of burdens and costs. I would support whatever is required unilaterally or collectively in that regard.

#### INVITATION TO MR. WALESA TO ADDRESS A JOINT SESSION

**Mr. SOLARZ.** I couldn't agree with you more. Just one final suggestion, if I might. I don't know how much influence you have in the White House these days.

**Mr. KIRKLAND.** It is rather modest.

**Mr. SOLARZ.** Whatever it is, it is probably greater than mine. So I would like to suggest that if you think it would be appropriate and useful to have Mr. Walesa invited to address a joint session of Congress, which I suspect you do, it would be very helpful if you could attempt to persuade the White House to make such a request of the leadership here.

The leadership tends to be besieged with requests from heads of state who all want this opportunity and one way they have gracefully declined such requests is to say that they like to await a formal proposal from the White House.

Otherwise, we would spend every day listening to heads of state who are always coming through town. I am absolutely convinced the leadership should accede to such a request. I hope they can be persuaded to extend the invitation without the White House's request. But if we get a request from the White House, it is a done deal.

**Mr. KIRKLAND.** I will be happy to use my very limited persuasive powers across the street at the White House to that effect, sir.

**Mr. SOLARZ.** Thank you.

#### TRADE UNION MOVEMENT IN POLAND TODAY

**Mr. GILMAN.** Thank you, Mr. Chairman. I regret that a prior hearing delayed me from attending. I want to welcome President Kirkland and his good assistants today. We certainly appreciate the approach that the labor movement, the AFL-CIO has taken, over the years with authoritarian governments in trying to lead them to a more democratic way of life, particularly with regard to the trade movement, the labor movement.

President Kirkland, how do you see the trade union movement evolving in Poland? Do you see it moving rapidly toward reform and openness?

In your judgment, should your work now be concentrated on teaching specific technical and organizing skills to trade union leaders?

**Mr. KIRKLAND.** Solidarity lives. It has endured through many years of harsh repression, including imprisonment of its leadership for a considerable period of time. It is, and always has been a trade union movement. That is its base. That is its roots. That is what it will live by. It has a rebuilding job to perform.

It has maintained a substantial membership, but it will have to rebuild to the level that it achieved prior to the imposition of martial law. That will be quite a task. They will need assistance. They have called upon us for assistance.

We are, of course, prepared to do whatever we can in that regard as we have in the past. They will be organizing, developing, of course, in competition with the old state-controlled phony trade union structure, which has had the advantage of control over the dispensation of certain social insurance and other benefits to working people.

I am sure that that monopoly on access to those things will have to be broken, and Solidarity will have to step in and be prepared to undertake those responsibilities as well. I think that is why I am asking in my testimony for some infusion, some funds available for that kind of assistance and work.

We would like very much to be in a position to send people over to stay there for certain periods of time to work with them and to help in these undertakings. And, of course, we would like to be able to bring a substantial number of members and the leadership of Solidarity here for additional training and consultations and discussions. That will be fairly expensive.

**Mr. GILMAN.** Mr. Kirkland, are any of your people over there now helping with training? Or is that a waiting fund?

**Mr. KIRKLAND.** We have been working out with Solidarity certain union-to-union programs which we have in place. We began with the teachers union, and with the Service Employees International Union with respect to medical care personnel. We are planning it, working it out with the Steelworkers and other affiliates who have also expressed an interest.

These are going to be very important undertakings in the years ahead.

**Mr. GILMAN.** I think the relationship between the Solidarity labor movement and the AFL-CIO will be extremely important in moving them forward to a freer and more open society. We thank you for your concerns and the continual efforts by our American labor movement in assisting in this area, and other areas.

I know in Central America you were involved in land reform and some of the other important programs that are so essential to try to open up the doors in these nations. We commend you.

I would just like to comment, Mr. Chairman, the gentleman from New York, Mr. Solarz, suggested inviting Lech Walesa to our Congress. I hope that he might want to explore it with the leadership

in the House to see what could be done without the necessity of a presidential invitation.

Thank you, Mr. Chairman.

#### A TIME OF CHALLENGE AND OPPORTUNITIES

Mr. HAMILTON. Mr. Kirkland, you might identify your two colleagues there.

Mr. KIRKLAND. I am sorry. On my right is Bob McGlotten, Legislative Director. On my left is Adrian Karatnycky, who is Associate in the Department of International Affairs, who has worked closely on the Solidarity matter.

Mr. HAMILTON. We are delighted to have you with us. Thank you for your testimony.

Mr. KIRKLAND. If I may say one word in conclusion. Our generation is privileged to be present and to be players in a moment of extraordinary historical change. We can see history moving before our eyes, things we have all prayed for and worked for many, many years.

It is one of the great challenges and opportunities that human history affords mankind. This is not a time when this country can respond by a plea of poverty and a lack of resources. What is lacking is will.

What is lacking is leadership—strong and forceful leadership. I raised the point of the role of the OECD because, despite revisionist history and all of that, the fact is in my view that the Cold War began when the Iron Curtain descended and the nations of Central Europe were denied by the Soviet masters the opportunity to participate in the Marshall Plan.

That was the onset of the Cold War. It would seem to me to be fitting that with the end of it in sight, they be brought into this historical association that still exists—and that instrument be put to work on the task of rebuilding those economies and bringing them into the society of free men and women.

It is symbolically correct. It was there for that purpose. It hasn't had that use for many, many years. It ought to. The opportunity is there. History will not judge this generation very well if we are found wanting at the time when we can literally see history moving before our eyes.

What happens in Poland, its success or failure, will have a profound influence on what happens in Czechoslovakia, Hungary, East Germany, Romania, and Bulgaria in the future. Freedom and democracy in Poland are worth many times the billions of dollars that we have spent on our military establishment. The collapse and the failure of this adventure, this movement of history, will cost us in its military, defense, and security consequences, many, many billions of dollars besides shattering the emerging hopes of free people everywhere.

There is no possible grounds or excuse for saying: "Where we are going to get the money? We don't have it. We are too poor." We have got to do whatever it required. The proposals I put forward are very modest, exceedingly modest. It is almost a good faith beginning, in effect.



I deeply believe that we must lead the rest of the democratic world into their appropriate share of this responsibility. That burden is primarily ours. Others should share it. It is in all of our interests. It is in the interests of free men and women everywhere.

Mr. HAMILTON. Well, we thank you. We certainly endorse your sentiments which you have stated with very compelling eloquence.

Thank you for your appearance, Mr. Kirkland.

Mr. KIRKLAND. Thank you, sir.

Mr. HAMILTON. To conclude our witnesses, we have Jan Nowak, National Director of the Polish American Congress.

Well, you have had a long wait, Mr. Nowak. We apologize to you for that. We have been anxious to hear from you. We look forward to your comments because we know that you have considerable expertise on these matters and very intimate acquaintance with the facts.

You may proceed.

#### STATEMENT OF JAN NOWAK, NATIONAL DIRECTOR OF THE POLISH AMERICAN CONGRESS

Mr. NOWAK. Mr. Chairman, thank you very much for this opportunity to share with you and with the committee my observations from Poland. I just returned from the country after having lengthy discussions with Prime Minister Mazowiecki, Lech Walesa, and other members of the Solidarity leadership.

Solidarity did take a heroic decision by accepting responsibility for the plight of the country. Forty-five years of Communist rule brought Poland to a total ruin. Walesa told me that maybe it will prove to be a mistake, but he said it would be ten times worse to watch idly while the country is being pushed into abyss.

The shortages are such that ordinary people were telling me that they have only one political and economic program: What to put on the table for their children the next day. Mr. Mazowiecki told me that he is engaged in a race with time. Strikes almost stopped, and he has overwhelming support of the population but this is a short term credit, probably no more than three months. Unless he can provide either improvement or a reasonable hope of improvement in the near future, his government will be swept away by a wave of strikes, maybe even hunger riots in a matter of a few months, perhaps at the beginning of the next year.

These are exactly the expectations of the party hard-liners who are acting in collusion with their allies in Moscow, in East Berlin, and Bucharest. I was told by a person in high authority that Mr. Ceausescu, on the day Mazowiecki was designated as the Prime Minister called all the representatives of the countries of the Soviet Bloc and requested an emergency meeting to consider an economic blockade and other measures against Poland which "betrayed Socialism."

The same request was put forward by Vietnam. The request was rejected by Gorbachev who has vital stakes in maintaining stability in Poland. The Polish hard-liners, however, through the Communist-controlled trade unions, plan to escalate demands for higher wages, encourage strikes, possibly even general strikes, and to fuel inflation from the present 300 percent to 4000 percent annually.

If this happens, General Jaruzelski would have no choice but to introduce a state of emergency and to restore ruthless dictatorship of hard-liners who would then deal with the workers by their own well-known methods. I would like at this point to answer your question which you put to one of the witnesses.

Jaruzelski is a loyal friend and ally of Gorbachev. As long as Gorbachev is interested in maintaining stability in Poland, Jaruzelski will not introduce the state of emergency because he knows that would trigger off revolution.

However, if the present government would lose control, well, in that case he would have no choice but to do it. Now the new government of Mazowiecki is not without assets. As I mentioned, it has at this moment the overwhelming support of the Polish people, including the workers.

Charismatic leader of Solidarity Lech Walesa, has now full, unrestricted access to the media, to television, radio, and the press. I was immensely impressed by Professor Balcerowicz, deputy prime minister, who is in charge of economic policy. Balcerowicz graduated from St. John's University in New York. He is a young dynamic man, a very forceful personality, full of enthusiasm, competency and convinced that he has an reasonable chance to rescue the country.

The Communist party is in a total disarray. It is expected that it will disintegrate within one year and cease to be a viable political force. The only real dangers are hard-liners and Communist controlled trade unions. Mazowiecki's government is determined to dismantle Communist political and economic structures as quickly as possible and if given enough time, he hopes to reach a point of no return regardless of what may happen in Moscow.

But the Government will not survive without meaningful—and I repeat, meaningful—not a token assistance from the West. Neither Mazowiecki nor anybody else I talked to offered any criticism of the Bush Administration, although during my fortnight stay in Poland, there were conflicting and confusing signals coming from Washington which had a very adverse impact on the morale of the Government and the people.

They were confused. They didn't know really if the United States was still willing to assist. I was offered a very sober assessment of the economic package offered by the West. Food assistance, which would amount probably to something around 240, maybe \$260 million will play a very important psychological role, but it will amount to only \$6 per capita. It can bring only temporary relief. The free enterprise fund, may assist role in promoting the private sector and economic reconstruction, but its beneficial effect will not be felt before at least one year, maybe two years.

The assistance from IMF and the World Bank, even if we take the most optimistic scenario, will not start to flow before six months. So what is absolutely essential to save the Polish democratic process is the currency stabilization fund, the project mentioned by Mr. Sachs, of no less than \$1 billion which would reach Poland before the end of the year.

It may be a sort of a bridge loan between now and the day when the IMF and the World Bank assistance will start to flow. Without

this kind of a bridge, the Mazowiecki government will not live long enough to be a recipient of the assistance from the West.

Well, we do have a precedent of assistance of this kind to Israel which helped very effectively to stem the inflation. I believe that it has to be tied down to a convincing credible program of anti-inflationary measures.

Mazowiecki's government is prepared to submit this kind of a program and to implement it. When the United States will take such a step, we may expect that our allies will offer more than a token of assistance, more than appearances of assistance. Its present scope and structure would not allow to effectively influence the course of events.

I am aware of the budgetary restrictions. I realize that we have such limitations as the Gramm-Rudman bill. But please, consider the alternative. We are now watching a process which may lead—which leads, in fact, to gradual reduction and probably eventual elimination of the Soviet military threat.

What is at stake are hundreds of millions of dollars which we spend on defense—quite rightly. But there should be some kind of a balance between our defense spending and nonmilitary means to achieve our security.

I believe that it is well worth while to make this kind of investment.

I am confident that I represent the feelings of the Polish American Congress in thanking you for this meeting and for devoting your attention and thoughts to the assistance to Poland which plays a key role in the process of change in the Soviet orbit, pushed forward by nonviolent means, nonviolent pressure.

Thank you.

Mr. HAMILTON. Mr. Nowak, we thank you. We know you have lived with this problem for a long time. You have followed events in Poland with very, very great interest and knowledge. You have imparted information that is very important to us. We appreciate your testimony.

One of your strongest supporters has been Mr. Solarz here. He said that you have great insights into the Polish question.

You have displayed that in your testimony. We are—we thank you for those valuable comments.

Mr. Solarz?

#### TRIBUTE TO MR. NOWAK

Mr. SOLARZ. Thank you, Mr. Chairman. I just want to thank you very, very much for your willingness on very short notice to include Mr. Nowak in the list of witnesses for today's hearing. I want to say for the record that in my judgment, having spent considerable time on Polish matters over the last few years, that there is literally no one else in our country who is as knowledgeable, as informed, and as wise in his analysis of the Polish situation and in his proposals for how to deal with it than Mr. Nowak.

Mr. HAMILTON. That is a pretty high recommendation for you, Mr. Nowak.

Mr. SOLARZ. It is a measure of the appreciation which his contribution to the cause of Polish freedom has earned him over the last

20 or more years that when he recently returned to Poland for the first time in decades, he was accorded a hero's welcome by the leadership and by the people.

Jan, I can only say in the process you have also contributed greatly to the furtherance of the interest of your current homeland, the United States of America.

Mr. NOWAK. Thank you very warmly, Congressman Solarz.

Mr. HAMILTON. Thank you very much, Mr. Nowak.

We conclude at this point and the subcommittee stands adjourned.

[Whereupon, at 1:10 p.m., the subcommittee was adjourned, subject to the call of the Chair.]

# UNITED STATES ECONOMIC PROGRAMS FOR POLAND AND HUNGARY

---

WEDNESDAY, OCTOBER 4, 1989

HOUSE OF REPRESENTATIVES, COMMITTEE ON FOREIGN AFFAIRS, SUBCOMMITTEES ON EUROPE AND THE MIDDLE EAST, AND ON INTERNATIONAL ECONOMIC POLICY AND TRADE,

*Washington, DC.*

The subcommittees met at 2:00 p.m., in room 2172, Rayburn House Office Building, Hon. Lee Hamilton (chairman of the Subcommittee on Europe and the Middle East) presiding.

Mr. HAMILTON. The Subcommittee on Europe and the Middle East and the Subcommittee on International Economic Policy and Trade meet today in joint open session to consider United States economic programs for Poland and Hungary. This is the second hearing being held on this issue. Chairman Fасcell has indicated that the Committee on Foreign Affairs will be moving toward markup of legislation shortly.

The hearing today was scheduled originally for last Thursday, and was postponed at the request of the Administration.

The subcommittees will want today to examine: the current situation in Poland and Hungary; the Administration's second request for economic assistance to Poland and Hungary this year, which was submitted to Congress September 8th; the planned third request of the Administration for aid to Poland and Hungary; assistance to Poland and Hungary from other governments; and several other proposals concerning economic assistance to these countries.

We will have two panels this afternoon. In the first panel we will hear testimony from: the Honorable Alex McMillan, a Representative in Congress from the State of North Carolina.

Congressman McMillan, we are very pleased to have you with us today. We welcome you before the subcommittees. You have a prepared statement which we will enter into the record in full. We look forward to your testimony, sir. You may proceed.

## STATEMENT OF HON. ALEX McMILLAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NORTH CAROLINA

Mr. McMILLAN. Thank you, Mr. Chairman. I also have some extensions of my prepared statement I would also like included in the record.

Mr. HAMILTON. Without objection.

**Mr. McMILLAN.** I thank you for allowing me to comment on the possible roles the United States can play in the enormous changes in Poland in the communist bloc.

I recently have been in Eastern Europe with Chairman Dingell and Members of the Energy and Commerce Committee to discuss economic and political conditions in Yugoslavia and Poland. We met with Walesa, the President of the Senate, and the Speaker of the House on the day they were choosing the first Polish non-communist Prime Minister in more than 40 years. We talked candidly for four hours about the awesome task they face.

All agreed on the need for radical change to a free market economy. In their view, there is no alternative—state communism has failed for years, its efforts to reform itself have failed, and free market solutions along western lines are essential if Poland is to realize its economic potential. A free economy is not possible without free political institutions, and this is a risk the new government is committed to take.

Contrary to press coverage of Walesa's reaction to the proposals of assistance made by President Bush, he emphasized to us that Poland essentially did not want to rely heavily on U.S. government financial aid. What he did say, and others strongly supported, is that Poland primarily needs the direct involvement of the U.S. and Western European private sector—both managerial and financial—in building a free market system.

The U.S. private sector has a unique window of opportunity that can dwarf governmental aid. We have fought the state-controlled system ideologically and militarily for good reasons. But they are now effectively saying to us, "You've made your point. Help us change."

The discussions with Polish leaders emphatically demonstrated that, while some transitional financial aid may be required, their long-term needs are very different. For example: rather than government loans only, they advocate the creation of two competing western-type private banks with an aggregate asset base of \$10 billion, probably \$5 billion of which could be built on current savings in Poland; rather than ongoing food aid, they want direct investment through joint ventures to bring western entrepreneurial skills into play, addressing major shortfalls in the Polish economy such as food processing, distribution, and retailing, without which the strong Polish agricultural base cannot be effectively utilized nor goods distributed to meet demand; they seek joint ventures to modernize energy and communication industries; and they envision joint venture participation by steel producers to modernize the Polish steel industry and make it environmentally responsible.

Beyond these lie hundreds of small business job-creating opportunities that comprise major segments of any western economy. Such enterprises have been stifled under state control. Part of the \$40 billion external debt could be reduced through debt-equity swaps as a price of entry for enterprises into undeveloped components of the Polish economy. These would reduce Poland's debt service obligations while stimulating greater foreign equity investment.

As I pointed out to Walesa, our private sector which comprises some 70 plus percent of GNP, is where we have the talent and financial resources to help most.

Some "aid" may be required, but it should be a relatively minor reinforcing component of what should be our major focus—enabling the private sector to creatively address what is needed in a free market environment in conjunction with Polish entrepreneurs or state-controlled systems committed to privatization.

We need to focus and energize U.S. government functions now diffused among the Department of State, Commerce, Treasury, Agriculture, and the Trade Representative into a single coordinating office charged with positively developing the strategy and facilitating the process of private sector involvement in the evolution taking place in Eastern Europe and the Soviet Union.

That office should address the following general issues in close coordination with committed countries and the U.S. private sector: one, identification of major underdeveloped areas of the Polish economy with potential for foreign participation; two, modification of antitrust laws to enable consortiums to form to spread risk and marshal their resources; three, provision for insurance, public and private, to protect against the political risk of expropriation; four, negotiation with emerging free market systems on the laws necessary to sustain the market systems and attract U.S. investment; five, promotion of two way trade; six, promotion of education and training in free market management; seven, negotiation of direct aid required to supplement change in return for the commitment to change.

The United States and the West have an enormous window of opportunity to assist Poland, Hungary, Eastern Europe and the Soviet Union in achieving free market economies. Nothing is more vital to enhancing world peace, economic development, and human rights. The answer lies in energizing our private sector involvement.

I had an opportunity to read briefly the draft bill that the committee has under consideration. I would like to commend the committee for the approaches taken in that draft and the points touched upon which I think are very consistent with some of the ideas that I have suggested.

Again, I thank the committee and thank the Chair for allowing me this opportunity to testify.

[The extended remarks of Hon. Alex McMillan follows:]

## EXTENSION OF REMARKS ON POLAND BY CONGRESSMAN ALEX MCMILLAN

Committee on Foreign Affairs  
Subcommittee on Europe and the Middle East

October 4, 1989

From my experience as an entrepreneur in a multi-industry company, I know there are a number of steps the government can and should take to enable the establishment of private ventures in Poland.

It begins with an assertive U.S. policy seeking to promote U.S. free market ventures not only in Poland and Hungary, but in any state controlled system that demonstrates its commitment to providing the legal framework for private-sector ventures to operate. It is especially important to encourage the Soviet Union to do likewise, thus affording a measure of assurance that other Eastern European efforts will not be threatened.

Among the first things that entrepreneurs consider when examining a potential new venture is the risk/reward equation. Eastern Europe is likely to be characterized by large economic and political risks for years, but their underdeveloped economies present the potential for growth and attractive returns.

Some of the risks can be minimized by extension to Poland and possibly others of private expropriation insurance and other services available from the Overseas Private Investment Corporation (OPIC). The U.S. government can begin to provide a "passive" form of risk protection if the Polish government were to destabilize or fall victim to outside aggression. More importantly, however, the United States can seek to actively protect Polish business ventures through the adoption and implementation of a coherent Eastern European foreign policy geared to support private involvement.



Continued, positive relations with the Soviet Union and encouragement to move the same way are essential to the success of an improved Polish economy. The same can be said for other Eastern European states. Clear signals need to be sent that disruptive influences designed to cause a retreat from free market advances in Poland are not acceptable and will destroy the development of free market systems overall. Poland and Hungary could serve as examples of the type of Western involvement other nations can expect, providing they adopt Polish-style social and economic reforms.

While negotiating against foreign government obstacles to investment in Poland, steps need to be taken so that U.S. government policies, make Polish ventures attractive to U.S. businesses. While some monitoring may be necessary, it is important that our government not erect a wall of paper through which interested businesses must struggle to find the door. U.S. government policy must be built on a major long-term commitment that includes support for private sector involvement in the mission to assist the Polish people and other Eastern European states in structuring free market economies. Through positive trade policies a free-flow of goods and technologies can be established, benefitting industries in both countries and expanding the number of people positively affected by improved relations.

Allowing U.S. companies to combine their areas of expertise and capital, possibly contrary to existing domestic anti-trust statutes, for overseas joint ventures will enable massive infrastructure improvements in the areas of telecommunications, finance and food processing and distribution, to name a few. It is a form of risk-sharing that will

accelerate involvement.

A cabinet-level position should be created to coordinate U.S. government policy with the U.S. private sector and the developing country toward developing these goals. This office would be charged with monitoring changes in foreign laws that could create the framework in which private ventures could form and succeed as well as maintaining a comprehensive, coherent U.S. strategy that promotes private sector initiatives. It is critical that this office have direct access to the President so that policy directives concerning Eastern Europe can be coordinated to maximize the importance of this policy.

This office could work with developing economies to identify opportunities and foster private sector response. It will require active promotion to succeed. Efforts should be jointly identified through planning with the new Polish government with the objective of encouraging and coordinating commitments in an order of priorities that are mutually reinforcing.

With these steps in place, the groundwork for successful private ventures will have been laid. Below are some real-life examples of what could be accomplished in the proper environment. These projects would have to be done concurrently to a large extent, if they were to be successful.

As mentioned earlier, when our delegation of Energy and Commerce members met with Lech Walesa and other government officials one of the first priorities mentioned was the establishment of a Western-style banking system. By allowing and supporting the formation of joint ventures involving U.S. banks, possibly in concert with other Western banks a

significant step toward the goal of private banking will have been accomplished. U.S. banks have experience in establishing large-scale systems to facilitate financing and attracting savings. No single bank is likely to accept a venture such as this by itself. Allowing several banks to form together limits each one's risk and provides expanded resources for maximum investment potential. Since competition is critical to keep lending rates reasonable and quality of service high, several groups could be formed to provide the estimated \$10 billion asset base necessary. A surprising amount of savings exists in state controlled economies resulting from the absence of consumer goods. In the case of Poland, Walesa estimates \$5 billion in savings held outside of the government-controlled banks.

Establishment of a free market system requires a significant upgrade in Poland's current communication system. While I was in Poland, I attempted to call my office in Washington. Much to my surprise, the operator told me that it would be eight to ten hours before I could get an international line. Critical to the success of modern economies is quick access to information and instant communication. Clearly, the telecommunications industry in Poland needs improvement. By allowing U.S. telecommunications utilities to combine for a joint venture in Poland, local and long distance telecommunications service can be quickly expanded and interconnected. The enhancement of communications would reinforce and accelerate free market development.

Many people who have come before the Committee have mentioned the need for emergency food aid. I agree that as a result of price controls, the food chain is out of balance. Basically, it lacks the components that make the U.S. system responsive and efficient. However, I wish to echo the

sentiments of J.B. Penn of Sparks Commodities who appeared before the Committee last week. Mr. Penn stated, and I agree, that Poland is capable of providing most necessary food products itself. Dumping surplus commodities could be harmful in the long-run by causing depressed prices resulting in a further decline of already low wages and a decreased supply. The pressing need is for an effective, nationwide processing, distribution and retailing system to get food from agricultural centers to market. Through improved distribution methods, food shortages in some areas may be eliminated as well as provide more orderly and profitable markets for farmers. This could best be achieved through competitive Western entries, joint ventures if possible, with Polish interests and people.

To establish such a system elements of food retailers, processors and transportation companies would be required. U.S. retail firms coupled with the processing capabilities of U.S. food packers and the efficient transportation system of domestic carriers could initiate the basics of a better food system. There are under-utilized retail spaces already available. Again, joint ventures with Polish participation, hopefully with employee ownership (ESOP's) can be achieved. Each U.S. participant would contribute capital and management to its area of expertise.

These are just three examples of what can be accomplished in Poland given the right environment. There are many others. I have talked with managers of small and major U.S. businesses in my district and nationwide who recognize the vital importance of U.S. private-sector participation in this process.

The CEO of a major utility already provides expertise to the Soviets in

their clean up. They would consider joint ventures in enhancement of electric capabilities.

A producer of manufactured housing has already met with twelve Poles about the possibility of producing and financing low cost housing in Poland.

The CEO of a major freight carrier who has extensive operations in Western Europe has expressed an interest in getting involved.

The CEO of the major innovative U.S. steel producer has shown an interest in exploring opportunities.

The Dean of one of the foremost MBA programs in America has held discussions with Estonians about educational programs.

The director of foreign trade studies in my local community college has held discussions with his counterparts in Riga.

The potential for U.S. private sector involvement is nothing short of astounding. The best role for the U.S. government is to unleash the potential for private sector involvement. Failure to seize the initiative now will result in missing the opportunity to dramatically change the economic and political environment in the major undeveloped market in the world, Eastern Europe.

Our challenge is not funding, it is organization.

Mr. HAMILTON. Thank you very much, Mr. McMillan. I noted your statement carefully and your emphasis on private sector involvement, which is appropriate.

That aspect is very much included in the draft bill and we thank you and others who have made a contribution to that. Are there questions or comments from other Members of the panel to Mr. McMillan?

If not, we thank you for your appearance and your contribution to the subcommittees' work.

Mr. McMILLAN. Thank you, very much.

Mr. HAMILTON. At this time the Chair will ask the members of the panel from the Administration to step forward and take their seats at the witness table. Curtis W. Kamman, Deputy Assistant Secretary for European and Canadian Affairs, Department of State; Richard Brown, Director for Egyptian Affairs, Agency for International Development; William E. Barreda, Deputy Assistant Secretary for Trade and Investment Policy, Department of Treasury; and Christopher Goldthwait, Assistant General Sales Manager, Foreign Agriculture Service, Department of Agriculture.

Before moving to your testimony, I want to call on the Co-Chairman, the Honorable Sam Gejdenson, Chairman of the Subcommittee on International Economic Policy and Trade.

Mr. GEJDENSON. Thank you, Mr. Chairman.

I wanted to commend you for all you have done on this issue and the leadership you have always given this committee and the Congress.

Had the Soviet Union told the West four years ago that Poland and Hungary could be bought from the Eastern Bloc for \$2 billion, the United States would have written out a check before the Soviets could finish the sentence.

My parents fled what was Poland during the Soviet occupation that continued following World War II. The traditions that existed there for democratic institutions can be re-ignited. Clearly the Polish people have done so much on their own and asked so little from us.

This is an opportunity for the Congress and the Administration to work together. The trade credit, insurance program and other programs that are included in the legislation by private sector investment into the picture. I think it is a critical stage. We don't want to find ourselves a year or two from now asking ourselves why we did not do enough and why we missed this opportunity.

For 40 years we have heard about the failures at Yalta when we gave away Eastern Europe. Now is our chance to get it back and we ought not to miss that opportunity.

[The prepared statement of Hon. Sam Gejdenson follows:]

PREPARED STATEMENT OF HON. SAM GEJDENSON, CHAIRMAN, SUBCOMMITTEE ON  
INTERNATIONAL ECONOMIC POLICY AND TRADE

I am pleased to join today with Chairman Lee Hamilton to examine economic assistance to Poland and Hungary. The Foreign Affairs Committee will perhaps not deal with a more significant issue this session of Congress.

Had the Soviet Union told the West four years ago that Poland and Hungary could be bought from the Eastern Bloc for \$2 billion, the United States would have written out a check before the Soviets could finish the sentence.

Now that the Polish and Hungarian people have themselves won their freedom, and are crying out for that same \$2 billion to ensure that these hard-won freedoms remain in place, the Bush administration is unwilling to open up the checkbook. In fact, President Bush had to be prodded by Congress into proposing \$225 million in aid over the next three years.

Yesterday, we came a step closer to living up to our responsibilities to Poland and Hungary with the announcement of the new Poland/Hungary aid bill. This legislation, by providing nearly \$900 million to Poland and Hungary over three years, will put our money where our mouth is. Together with assistance from the European Community, Poland and Hungary may actually get the short- and long-term aid they need to join the Western World.

However, several trade-related measures in the Poland/Hungary aid bill, which are under my subcommittee's jurisdiction, make it more than a simple aid package. American companies will now, in effect, be responsible for helping Poland and Hungary develop the business and management skills needed for a free and open economy.

Authorizing the Overseas Private Investment Corporation to insure investment in Poland and Hungary may cause dozens of American firms to consider opening small-scale Polish and Hungarian factories. These operations will create new jobs and needed foreign exchange. Without OPIC, many American firms would simply not take the risk.

The new trade credit insurance program for Poland and Hungary created by this legislation will allow the Export-import Bank to finance trade between the U.S. and these two countries. The \$200 million authorization will allow A.I.D. to guarantee Exim bank credits to Poland and Hungary. This provision will enable American firms to sell needed goods which will promote economic development.

Similarly, by authorizing additional funds for the trade and development program, the U.S. Government can fund needed feasibility studies of economic development projects in both countries.

I hope to hear the administration's views on these trade-related proposals, as well as other administration plans to assist Poland and Hungary. I am particularly interested in Polish and Hungarian agricultural needs, and how U.S. agricultural export programs can be best utilized.

I look forward to today's testimony and to working closely with today's witnesses on a package for Poland and Hungary which can be signed into law in the near future.

#### **STATEMENT OF CURTIS W. KAMMAN, DEPUTY ASSISTANT SECRETARY FOR EUROPEAN AND CANADIAN AFFAIRS, DEPARTMENT OF STATE**

**Mr. KAMMAN.** Thank you, Mr. Chairman.

The reason we are here is that event in Eastern Europe and Poland and Hungary have undergone phenomenal changes in the last several months. I have alluded to this in greater length in my prepared statement. I would like to sketch briefly the things the Administration has so far done and is proposing to do.

The Administration from the very outset was strongly encouraged and promoted the changes that were underway in Poland and Hungary. In a speech on April 17 of this year in Michigan the President announced an eight point plan to support reform in Poland. Two elements contained in that speech, authorization for Overseas Private Investment Corporation to operate in Poland and the removal of Poland from the list of countries prohibited by law under the USGSP system were approved by this committee and passed by the House in H.R. 2550.

Another of the proposals the President announced that day in April, that is a private business agreement with Poland was signed on September 20 in Warsaw by Secretary of Commerce, Mosbacher.

During the President's July visit to Poland and Hungary he announced additional steps to promote the transformation of economies of those two countries. That included a Poland-American and

a Hungary-American enterprise fund designed to promote enterprise development.

One million dollars for the Poland-American fund and \$25 million for the Hungary-American fund. This is based on the disparity of population of the two countries. We will seek appropriations for these funds over the next fiscal year.

The President announced \$20 million for environmental projects in Hungary and a commitment of \$5 million for technical assistance and bilateral exchanges with Poland and Hungary in the labor field to help them deal with retraining problems and to protect works and their families as these countries move to market oriented economies.

Subsequently, the President announced a total of \$108 million in food aid. This is in both fiscal 1989 and fiscal 1990 for delivery to Poland and in response to urgent request from Poland for emergency good assistance. The process that has begun in Poland and Hungary is unique. Nowhere else has the dismantling of a communist economy and the construction of a market economy ever been tried.

That is why in a unique situation we have tried to devise unique solutions. One such solution is the enterprise fund concept embodied in the bill currently before your committee. Quite simply we have had to design an intuitional framework for these funds almost from the ground up. We have spent considerable time on them.

We are confident that they will work but we emphasize that they are new. We will continue to review the progress of the funds and recommend any refinements.

Let me turn to what the two countries can do for themselves. They need to put in place comprehensive macro-economic programs to satisfy the financial institutions since it is crucial for Poland and Hungary to retain and restore international credit worthiness. They need to undertake structural reforms in their economies.

It is for this reason that we have been cautious in this Administration to devising further steps to assist Poland, wanting to be sure these two objectives are met. A couple of hours ago it was announced by the White House that the President has decided on two new major steps for Poland.

He will ask the Congress to approve a \$200 million grant for stabilization purposes. This would be the U.S. contribution to a sum of \$1 billion in western assistance that the Poles have requested. The grant would be contingent upon conclusion of an IMF agreement between Poland and the IMF. The President is also planning to send to Warsaw within the next few weeks a presidential mission including senior U.S. officials which would represent business, labor, various expertise.

The purpose of the mission would be to make recommendation to the President based on the findings of the mission and also on the deliberations of the multilateral group formed after the Paris economic summit as to the most effective use of the proposed \$1 billion multilateral stabilization fund.

Finally, the White House has also announced that the President is inviting President Jaruzelski and Prime Minister Mazowiecki to visit Washington at times that would be convenient to each of them.



I would like to say one word about the importance of working with other countries on this initiative. The United States took the lead after President Bush's visit to Poland and Hungary to engage the other countries of the economic summit, the so-called Group of Seven, in a program of supporting reform in Hungary and Poland. It was decided at the Paris Summit to entrust the European commission with the task of organizing a group of all interested countries, not only the Paris Summit countries.

This group has met twice now, on August 1 in Brussels. I was the chairman of the American delegation to that first meeting. That was before the non-communist coalition had been agreed upon or taken office in Poland. The second meeting took place on the 26th of September in Brussels. At both meetings we were able to find support and tangible progress toward the goal of assisting the two countries.

In the first meeting in August the primary emphasis was on food aid which Poland had especially asked for. In the second meeting the countries asked for additional food aid and the European commission announced a target of over \$300 million U.S. dollars for non-food aid to be provided by the European countries and challenged the countries present to match that with similar funds over the coming year.

We believe that shows American leadership in pursuing efforts to help Poland and Hungary. Secondly, we believe it is having results. I would like to express appreciation for the efforts for this committee to support the common goal for support for Hungary and Poland.

The bill that you are considering today incorporates all the authorities that the Administration requested in H.R. 2550 and S. 1617 to help these reforming countries. It incorporates the authority for the enterprise fund I just described and the other authorities needed to employ the President's initiatives of July. We believe the funding levels will provide significant impetus to the private sectors in Poland and Hungary and that this can stimulate additional foreign and domestic investment.

We think the \$200 million grant fund the President announced today which is linked to structural reform in Poland will go a long way toward the longer term results of Poland in the financial field. Thus, through a multiplier of public and private efforts our assistance and that of our allies can provide the Poles with the support they need and the renewal of confidence in the future.

Thank you, Mr. Chairman.

[The prepared statement of Curtis W. Kamman follows:]

TESTIMONY OF  
CURTIS W. KAMMAN  
DEPUTY SECRETARY OF STATE FOR EUROPEAN  
AND CANADIAN AFFAIRS

HOUSE FOREIGN AFFAIRS COMMITTEE

October 4, 1989

Mr. Chairman, Members of the Foreign Affairs Committee:

It is a pleasure to have the opportunity to testify before the Committee on the subject of what are truly seminal events in world history. The pace of renewal and reform in Eastern Europe today is extraordinary in both its scope and implication. The events are a witness to the triumph of the human spirit, to the perseverance of peoples who have longed for freedom and dignity.

In Poland, events have moved with enormous speed during the past six months, far faster than anyone could have predicted. The process of change which began with the signing of the Roundtable accords, and accelerated with the holding of successful elections in June, has now led to the formation of a Solidarity government under Prime Minister Mazowiecki.

Events in Hungary have been moving in a similar direction. The Hungarian Communist Party has engaged in roundtable discussions with independent groups of society; free parliamentary elections are scheduled sometime in the next six months, and Hungary has dismantled the fences that separated it from the West. We all applaud Hungary's courageous decision to honor its international obligations and permit over 20,000 East Germans to cross its border into the West.

- 2 -

Although these events are taking place many miles from our shores, the United States has a very special interest in the democratic aspirations and material wellbeing of the Polish and Hungarian peoples. As President Bush said in Hamtramck, Michigan on April 17, "We are bound by a very special bond, a bond of blood, culture and shared values."

This Administration from the start strongly encouraged and promoted the changes underway in Poland and Hungary. In Hamtramck, the President announced an eight-point plan to support reform in Poland. Two of the elements contained in that speech--the authorization for the Overseas Private Investment Corporation to operate in Poland, and the removal of Poland from the list of countries prohibited by law under the U.S. GSP system were approved by this committee and passed by the House in H.R. 2550. Another of the proposals the President announced that day, a private business agreement, was signed September 20 in Warsaw by Commerce Secretary Mosbacher.

During the President's July visit to Poland and Hungary, he announced additional steps to promote the transformation of the economies of these two countries. These steps included:

- 1) a Polish-American and a Hungarian-American Enterprise Fund designed to promote private sector development. The President has requested \$100 million for the Polish-American Fund and \$25 million for the Hungarian-American Fund. We will seek appropriations for these funds over the next three fiscal years.
- 2) A \$20 million commitment to support environmental projects in Poland and Hungary.
- 3) The commitment of \$5 million to provide technical assistance to and bilateral exchanges with Poland and

- 3 -

Hungary in the labor field to help them deal effectively with retraining and relocation problems and to protect workers and their families as these countries move to market-oriented economies.

The President also has subsequently announced a total of \$108 million in food aid for Poland in response to urgent Polish requests for emergency assistance.

These initiatives are, of course, not designed to be the last word on assistance to Poland and Hungary. Rather, we consider them to be a very solid beginning.

The process underway in Poland and Hungary is unique. Nowhere else has the dismantling of a communist economy and the construction of a market economy ever been tried. Thus, unique problems have called for unique solutions.

One such solution is the Enterprise Fund. Quite simply, we have had to design the institutional framework for these Funds almost from the ground up. We have spent considerable time on them, we are confident they will work, but we have to emphasize that they are something very, very new. We will continue to review the progress of the funds and recommend any additional refinements.

It is worthwhile to note that while our aid can play an important role, external assistance cannot substitute for the hard internal decisions which only the Polish and Hungarian governments can make. It can help cushion hard consequences, it can help stimulate solutions, but in the end, it is the Polish Government and the Polish people, the Hungarian Government and the Hungarian people, who must make these difficult decisions.

- 4 -

Both countries need to put into place comprehensive macroeconomic programs which satisfy the international financial institutions. The President has clearly stated our support for Polish negotiations with the IMF and for the sectoral loan programs now pending at the World Bank. We are encouraged that the new Polish government has made reaching agreement with the IMF a top priority.

In this regard, we have been very encouraged by the ambitious economic program the new Polish government has recently drawn up. We received this program last week, and we are studying it very closely. The program contains a request for Western assistance and we will be considering this request as we consider the substance of the reform program.

The Polish government has only been in office for about three weeks, and it is a tribute to the energy and boldness of this new government that it has formulated such a plan in so short a time. The plan deserves thorough consideration and a timely response.

I would like to turn my attention now to the subject of multilateral assistance for Poland and Hungary. Recognizing the magnitude of Poland's and Hungary's needs, the President at the Paris Economic Summit called for the establishment of a multilateral mechanism to promote reform in these two countries. The Summit Seven asked the European Commission to organize such an effort. This group first met on August 1st and has already generated \$271 million in food assistance, including the U.S. contribution, for Poland.

In its meeting on Tuesday, September 26, the Commission proposed a new package of about \$660 million in assistance to be contributed by the member states to support reform in Poland and Hungary. The assistance would include help in the

- 5 -

following areas: agriculture in Poland, better access to markets in their countries for both Poland and Hungary, investment opportunities, vocational training and environmental protection. We are very pleased by the results of this meeting, and look forward to the early convening of a follow-up meeting to discuss the Polish government plans.

There is no question that the West needs to do more for Hungary and Poland. We have a responsibility to do all we can to help these countries succeed. We know that the stakes are high.

I want to express appreciation for the efforts of this committee to support our common goal of extending U.S. support for the historic process now unfolding in Poland and Hungary. The comprehensive bill you are considering today incorporates all the authorities the Administration has requested in H.R. 2550 and S. 1617 to help these reforming countries transform their societies and economies. We continue to attach the highest priority to getting legislative authority for these initiatives passed promptly. We need to get our programs on the ground and functioning. In particular, we need to allow OPIC to operate in Poland as soon as possible. Already, some American businesses are holding off, waiting for OPIC so that they can have the benefits of coverage.

We believe the funding levels we have requested will provide a significant impetus to the nascent private sectors in Poland and Hungary and thereby stimulate additional foreign and domestic investment. Through the multiplier of public and private efforts, our assistance, together with help from our friends and allies, will provide real help and support and can lead to a renewal of confidence in the future.

Thank you.

Mr. HAMILTON. Thank you. Who is next?

**STATEMENT OF WILLIAM E. BARREDA, DEPUTY ASSISTANT SECRETARY FOR TRADE AND INVESTMENT POLICY, DEPARTMENT OF TREASURY**

Mr. BARREDA. I will go next.

Mr. HAMILTON. Mr. Barreda is the Deputy Assistant Secretary for Trade and Investment Policy for the Department of Treasury.

Mr. BARREDA. I will briefly touch on the economic situation in Poland and then on the international institutions' involvement, the IMF, World Bank, International Financial Corporation, and the Paris Club. Then I will do the same for Hungary.

Poland's economy is in crisis. There is general agreement on that. Inflation has risen rapidly. It grew at an annualized rate of 182 percent during the first half of 1989, as compared to 60 percent in 1988.

A major contributing factor to the rapid rise in prices has been the budget deficit which is expected to rise from near balance last year to an estimated 5 to 10 percent of GNP in 1989. The money supply has increased sharply. Industrial production was down 1 percent in the first half of this year and is expected to decline another 1 to 2 percent in the rest of the year.

The hard currency current account deficit, originally expected to be \$820 million, is now projected to reach \$1.7 billion to \$2.1 billion.

The problems of the Polish economy are much deeper and more fundamental than is indicated by these macroeconomic imbalances. Much more is needed than changes in existing policies to put Poland on a path of self sustaining economic growth. In addition to correcting macroeconomic imbalances, Poland must make major systemic changes. For example, it must create financial institutions, break up existing state monopolies in industrial production and distribution systems, and end government subsidies to uneconomic firms.

The new Polish government recognizes these problems. They are developing a program to deal with it. We welcome this program. The program has three main elements to try to make the changes in their system that are necessary so that market based macroeconomic tools can work. For example, Poland needs to have control on the money supply, to be able to limit expansion of credit. It needs a safety net for any workers who might be temporarily displaced as the economy shifts from state owned to market oriented and it needs to have legal provisions for bankruptcies.

The second phase will use macroeconomic and monetary tools in order to create an environment in which Poland can free prices and privatize the economy. This is an outline of a program and quite appropriately so at this time. The details, phasing, precise policy measures have to be worked out, with the International Monetary Fund who can give technical advice and also through the political process in Poland.

There are many ways of doing a reform. The best way has to be chosen by the government doing it through its political system. I would also underline something said earlier. This is a new process, it has never been done before. What happens when one tries to

change a state-controlled economy into a market-oriented economy is totally unknown. The policy and supply responses are in a totally new area. We are going to have to be flexible as we assist this process and react to how the developments happen.

I think it will be a long process. It took 40 years for Poland to get into this situation and it will take awhile to get out. Whether this is successful or not will depend on the Polish people, how the new policies are implemented and the response of the Polish people.

Still international institutions can assist in this process. The key is the role of the International Monetary Fund. The fund can give policy advice and help Poland develop policies to establish an environment in which prices can be freed and privatization can occur. Poland will also have to complement these macroeconomic policy measures with structural changes that will lay the foundation for real growth. The IMF can provide financing.

Perhaps most importantly, its seal of approval on policy measures can unlock other assistance, perhaps new credits from official institutions.

Now I would like to touch on the World Bank. The World Bank has about \$500 million in loans in the pipeline. They are prepared to move forward once the economic environment is appropriate. The World Bank is prepared to do more. The United States has been active in encouraging the World Bank to work with the Poles so these reforms can get underway.

The International Finance Corporation is a smaller operation, a sub-part of the World Bank. It provides loans and investment in private enterprises. It has been active in Poland and Hungary and we certainly encourage it to do so. It may have greater opportunities as privatization takes hold.

The Paris Club is an informal group of official creditors which meets to discuss rescheduling terms. We are now reviewing with our Paris Club partners and with the Polish authorities what type of debt relief is necessary on official credits. A Paris Club Agreement would end Poland's status of being in default. This change might open up some credit lines.

In short, the Administration has been working very hard and very closely with these financial institutions to be sure they will do all they can to assist Poland.

I would like to briefly touch on Hungary. Hungary has taken some of the steps necessary for moving to a price-based system. They have done some tax reforms, banking reforms, changing of the law to allow private enterprises. They still have a ways to go as over 37 percent of prices are still state controlled.

Most recent economic performance was disappointing, primarily due to growth in the fiscal deficit linked to subsidies to financial enterprises. I should not that Hungary has met its debt obligations and there has never been a debt rescheduling for them. It does not have an IMF program at this time but has had several in the past. The World Bank has over \$600 million in loans in the pipeline.

To sum up, Mr. Chairman, we are doing all we can to make sure the international and financial institutions support these reform efforts to the maximum of their ability. We want to ensure that there are lasting and permanent, fundamentally sound changes.

[The prepared statement of William Barreda follows:]



STATEMENT OF  
WILLIAM E. BARREDA  
DEPUTY ASSISTANT SECRETARY FOR TRADE AND INVESTMENT POLICY  
TO THE SUBCOMMITTEE ON EUROPE AND THE MIDDLE EAST  
HOUSE COMMITTEE ON FOREIGN AFFAIRS  
ON THE SUBJECT OF UNITED STATES ASSISTANCE  
PROGRAMS TO POLAND AND HUNGARY

October 4, 1989

Mr. Chairman:

I am pleased to represent the Treasury Department on this panel to discuss Poland and Hungary. I will first discuss Poland's economic situation and possible assistance from international financial institutions. I will then discuss Hungary's situation.

Poland's Current Economic Situation

Poland is facing severe economic and financial problems, which have been worsening in recent months. Inflation has risen rapidly. It grew at an annualized rate of 182 percent during the first half of 1989 (as compared to 60 percent in 1988).

A major contributing factor to the rapid rise in prices has been the budget deficit which is expected to rise from near balance last year to an estimated 5-10 percent of GNP in 1989. The money supply has increased sharply. Industrial production was down 1% in first half of this year and is expected to decline another 1 - 2% in the rest of the year.

The hard currency current account deficit, originally expected to be \$820 million, is now projected to reach \$1.7-\$2.1 billion.

The problems of the Polish economy are much deeper and more fundamental than is indicated by these macroeconomic imbalances. Much more is needed than changes in existing policies to put Poland on a path of self sustaining economic growth. In addition to correcting macroeconomic imbalances, Poland must make major systemic changes. For example, it must create financial institutions, break up existing state monopolies in industrial production and distribution systems, and end government subsidies to uneconomic firms. (1)

### Poland's Economic Reform Program

We have just received a working outline of the proposed economic and structural reforms which the new Polish government is contemplating. The basic aim of the program is to transform the Polish economy into a market economy.

The program has three phases. During the first one, covering the remainder of 1989, some necessary preconditions for the reform will be introduced, including a new bankruptcy code, anti-monopoly and social safety net measures (i.e. unemployment insurance). The second phase, intended to start January 1990, will include a tightened monetary and fiscal policy, the introduction of systemic changes in the tax system, and continuing the reform of the banking system. These efforts will continue in the third phase to begin in 1991.

We believe the thrust of the program is broadly appropriate. It should provide a good basis for the necessary reforms. Particularly encouraging is the strong commitment to move toward market oriented institutions and processes. Also encouraging is the recognition of the need to attack inflation to promote the proper environment for decontrolling prices. The best way to proceed to implement the program, the decisions regarding what measures are appropriate and politically acceptable in Poland, as well as the order and timing of their implementation has to be worked out. Similarly, the amounts and kinds of financial, material and technical external assistance required to support the reforms will also have to be determined.

The success of Poland's reform effort will depend primarily on the policies chosen by the Polish Government, the implementation of those policies and the response of the Polish people. Nonetheless, international financial institutions and bilateral assistance can make a real difference. I would now like to discuss those institutions: the IMF, the World Bank and IFC, and the Paris Club.

### Poland and the IMF

The United States has been actively encouraging the International Monetary Fund to develop with Poland an agreement on an economic reform program that would merit IMF financial support. The Fund is planning to send a Mission to Poland next week to begin discussions on the Polish economic reform and Fund support.

The Fund's role in assisting Poland's restructuring is crucial. The Fund has the expertise and the international standing and credibility to assist Poland in designing policy measures. Fund approval of Poland's policy measures could facilitate other multilateral assistance, such as World Bank loans, as well as bilateral flows.

In considering its support for Poland the IMF will need to ensure that a Polish program meets the same traditional high quality and standards of IMF conditionality that would be expected of all members. Given the enormity of the challenge Poland faces, it is particularly important that the program be a strong one, integrating two aspects: correcting the macroeconomic environment and promoting structural reform to produce sustainable growth.

#### World Bank Support for Poland

The U.S. Government will support economically and financially sound World Bank loans to Poland as soon as reforms are underway. The World Bank has three project loans and one technical assistance loan worth a total of \$555 million in the lending pipeline for Poland. Bank management is working with the Poles, and will bring the loans forward when macroeconomic conditions can assure Poland's creditworthiness. The loans already under preparation include the following:

Industrial Export Development loan (\$250 million) through the National Bank of Poland to finance modernization and expansion of selected export-oriented industrial enterprises in chemical, electroengineering and wood-based industries.

Agricultural Industries Export Development loan (\$50 million) through the National Bank of Poland to finance rehabilitation, modernization and expansion of existing agricultural processing industries to increase export earnings.

Energy Resources Development loan (\$250 million) through the National Bank of Poland to increase operating efficiency in the coal and gas sectors and maintain coal production and improve the environment.

Environmental Technical Assistance loans (\$5 million) to assist in designing a framework to guide future work and investments to improve the environment.

Other possibilities for the future could include formal policy based loans such as a Structural Adjustment Loan which could run to several hundred million dollars and loans targeted on specific sectors such as finance or agriculture.

In addition to these project loans, the Bank may be able to assume a broader role to support the shift from a state controlled -- and owned -- economy to a market economy. For example, the Bank could provide major assistance in reforming state enterprises and in their privatization. We will be discussing these possibilities with Bank management.

### The International Finance Corporation (IFC)

The IFC, a part of the World Bank, lends or invests in private enterprises. The United States supports economically and financially viable IFC projects in Poland. Last year, the United States supported the IFC's investment in Hortex, a private Polish cooperative. The project was financially and economically sound, it was in a private enterprise, and it had the means to generate sufficient foreign exchange to meet its obligations. Two other projects are in preparation: the renovation of the Bristol Hotel in partnership with a major international hotelier, and a float glass project with a Japanese co-investor.

### Debt Rescheduling in the Paris Club

The Paris Club is the informal multilateral forum for rescheduling of debt owed to governments (official debt). It meets roughly once a month in Paris according to rescheduling needs. The meetings are chaired by France and involve all major creditors with exposure in the rescheduling country who wish to attend.

The Paris Club has been discussing the scope of a rescheduling of Poland's official debt and met with Polish authorities to exchange views on this question last month. The United States' representative has consistently indicated our intention to support an early and generous debt rescheduling for Poland in the Paris Club.

Poland's official debt is \$26 billion; scheduled payments on the debt are \$3 to \$3.5 billion a year. A Paris Club rescheduling would primarily benefit Poland by ending its status of being in default on its official debts. It could thus open the possibility of official institutions providing new credits.

### Bilateral Assistance

The United States is also working with its allies to mobilize bilateral support for Poland. Bilateral U.S. efforts, such as food aid and the Administration's proposals your committee is considering, can complement the activities of the international institutions. The Commission of the European Economic Community is hosting meetings to concert the bilateral assistance of the West.

### Hungarian Economic Situation

The Hungarian authorities have adopted a series of structural reforms over the last two years that provide a partial basis for a movement to a more market-based system.

- On January 1, 1988, a Value Added Tax, a comprehensive personal income tax and a corporate income tax were introduced, while a number of existing taxes were abolished.
- The banking system has been reformed. The commercial and central banking functions of the National Bank of Hungary were separated and a number of competing commercial banks established.
- The wage determination process has been reformed with the aim of widening the scope for pay differentiation according to performance.
- Prices have been liberalized, but about 37 percent of prices were kept under administrative control because of concern over inflation and the lack of sufficient financial discipline and domestic competition.
- A new corporate association law was adopted January 1, 1989, which widened the scope for entry and expansion of small enterprises and private undertakings.
- Import restrictions have been reduced.

These steps are to be commended. Unfortunately, the Hungarian budget deficit this year has grown faster than planned. Therefore inflationary pressures are growing and the current account deficit has increased.

Further efforts are needed to limit budgetary expenditures and to privatize more of the economy. While there are problems, I should emphasize that Hungary has consistently met its debt obligations. Its debt has not had to be rescheduled.

#### Hungary in the Fund and the Bank

Hungary became a member of the Fund on May 6, 1982. The Fund has supported three stand-by arrangements since then. The first one was approved on December 8, 1982 for twelve months and was completed as planned. The second one, a thirteen month arrangement, approved January 13, 1984, was also completed as planned. Most recently, a twelve month arrangement was approved on May 16, 1988. This agreement was extended for two months and expired on June 30, 1989. There is no stand-by arrangement in effect for Hungary at present.

The U.S. Government has been supportive of the World Bank's lending program to Hungary. We will continue to support economically and financially sound loans to Hungary. The World Bank is preparing loans worth a total of \$665 million for

Hungary. Among them is Hungary's first structural adjustment loan, which will be accompanied by a financial sector loan. The loans in preparation include the following:

Structural Adjustment loan (\$200) million to support policy reforms.

Financial System Modernization loan (\$65 million) to the National Bank of Hungary to support the modernization of the financial system and improve its ability to mobilize and allocate resources.

Fourth Industrial Restructuring loan (\$100 million) to support development of the private sector, and small and medium enterprises.

Human Resources Technology Development loan (\$100 million) to build on the institutional, policy and investment foundation established under previous loans for both human resources and technology development.

Second Telecommunications loan (\$100 million) to finance a part of the telecommunications sector investment program to build on institutional, financial, and technical improvements initiated under the first Telecommunications loan.

Integrated Agricultural Business loan (\$100 million) to finance investments of and technical support to small farmers.

#### The International Finance Corporation (IFC)

We have been very supportive of IFC's investments in Hungary. During the past fiscal year, IFC made equity investments and loans for two projects in the plastics and packaging industries and exercised its pre-emptive rights to maintain the same share of ownership in a glass wool company. Also, in August 1989, IFC's capital markets department participated in a \$50 million fund for investment in Hungarian enterprises. This should help significantly in the development of Hungary's fledgling capital market.

#### Conclusion

In summary, Poland and Hungary have embarked on an historic undertaking, the conversion of a rigid, centrally planned economy into a pluralistic market based society. This has never been done before. The task is enormous, complex and will take time and effort. We, other Western countries, and the international institutions must actively support this important endeavor. Our support has to be carefully crafted to enhance the prospects for a successful and lasting transformation of these countries.

The Administration will continue to consider how we can best support, both bilaterally and through the international financial institutions, this process of change as it evolves.

I will be pleased to take your questions.

**STATEMENT OF CHRISTOPHER GOLDTHWAIT, ASSISTANT GENERAL SALES MANAGER, FOREIGN AGRICULTURE SERVICE, DEPARTMENT OF AGRICULTURE**

Mr. HAMILTON. The next witness is Christopher Goldthwait, Assistant General Sales Manager, Foreign Agriculture Service, Department of Agriculture.

Mr. GOLDTHWAIT. Thank you, Mr. Chairman.

I will also be brief and will summarize my remarks by focusing specifically on the questions raised by the subcommittee in its letter of invitation to us.

Let me begin by speaking a little bit about the agricultural situation in Poland and Hungary. It is quite different in the two countries. Polish agriculture is one which has been privatized for some time and one in which the individual farmers have a very dynamic and entrepreneurial spirit but where they have in fact been literally starved of inputs, everything from feed grains for livestock production through fertilizer, all the things they need to maximize their productivity.

In addition the state up until this time has maintained control of the marketing and distribution system both of inputs and farm products so that we are faced with a situation of needing to see the development of an entire private food and feed processing sector.

These things will go a long way toward solving the problems that currently face Polish agriculture.

In Hungary the situation is, as I noted, completely different. Hungary is more or less self sufficient and indeed for some products is an agricultural exporter. There the basic problem of one of developing the necessary efficiencies and economies of scale on what is primarily a solid productive base.

With respect to food needs, Poland has requested a variety of commodities, including meat, feed grains, vegetable oil and some others. We believe the needs for meat and feed grains are the most pressing. Hungary, on the other hand, does not face specific shortages of commodities per se. In the programs that we have announced for Poland in the food aid area we have included in our fiscal year 1989 program sorghum and butter. These commodities are in the process of being shipped now. The sorghum has been dispatched and the butter is being dispatched in several shipments.

For fiscal year 1990 President Bush has announced shipments of additional butter and feed grains, vegetable oil, meat, rice and cotton. Depending on Polish needs, we currently anticipate the other commodities will be provided. Most will be shipped this fall or in the early months of 1990. We are in communication with the European community and other food donor countries in order to avoid unnecessary duplication and bottlenecks. We want to make sure that the timing avoids any port congestion and back up of commodities in what may be rather constrained distribution channels.

Mr. Chairman, I will stop there and thank you for submitting the total statement into the record.

[The prepared statement of Christopher Goldthwait follows:]

Statement by Christopher Goldthwait  
 Assistant General Sales Manager  
 Foreign Agricultural Service  
 U.S. Department of Agriculture  
 Before the Subcommittee on Europe and the Middle East  
 House Committee on Foreign Affairs  
 October 4, 1989

U.S. Aid to Poland and Hungary

Mr. Chairman, members of the committee, I appreciate the opportunity to discuss U.S. agricultural assistance for Poland and Hungary with you.

Background.

The agricultural economies of Poland and Hungary are markedly different. In Poland shortages of some foods, and resulting lines to buy what is available, have been common for many years. They have been somewhat worse in recent weeks primarily because the August 1 removal of government price controls, which resulted in dramatic food price increases--six fold or more--to the Polish consumer while the prices paid to farmers have not risen dramatically. Despite food lines and some empty food store shelves, Polish citizens are not starving. Per capita meat consumption in Poland is on a par with Sweden, Norway and the United Kingdom. Total caloric intake exceeds that of the United States. In addition, after severe declines in the early 1980's, Poland's agricultural output has increased dramatically, and the country is close to becoming a net agricultural exporter. The current difficult situation is, I believe, a short-term one.



Poland's food problems are not the result of an inability to produce, but rather the result of state-administered prices which do not reflect supply and demand, plus inadequate marketing and distribution systems. In the past two years, the Polish government decreed administrative price increases on several occasions, in attempts to limit budget exposure to high retail price subsidies. On August 1, the government removed all legal restrictions on the setting of retail prices.

However, liberalizing a non-market economy requires more than a simple government decree. Before Poland's food problems can be resolved, the government must resolve some structural problems in the Polish economy. Price rises since August 1 probably do reflect market forces and the inflation that has been generated by the increases in the money supply needed to finance the government's continuing budget deficits. The problems are characterized by inefficiency and runaway costs. The solution will require:

- building on the base of Poland's small farms (the average size of a privately owned farm is 5 hectares);
- creating a system to introduce new technology to private farmers and providing them with incentives to invest in that technology;
- providing needed inputs and appropriate machinery;
- and overcoming transportation, storage and marketing problems.

By freeing prices and overtly acknowledging the need for a strong private sector, the Polish government has taken the first steps to reform.

Once market forces penetrate the entire food production chain, Poland's food market should be able to reach equilibrium, so that continued massive infusions of continuing food aid should not be necessary. There is, however, a real, long-term need for machinery, spare parts and chemicals. Poland also needs assistance in improving its infrastructure, developing its food processing industry and establishing a private distribution and marketing network.

Hungary's problems, on the other hand, are much less severe than Poland's. Hungary has the most technically developed agricultural system in Eastern Europe and has been more successful in implementing market-oriented reforms. Its infrastructure is vastly superior to Poland's, and Hungary has improved conditions for private enterprise and integrated private producers with a socialized marketing and distribution network. The Hungarian government encourages the development of private food processing enterprises. At the same time, however, Hungarian agriculture suffers from excessively high costs, while large subsidies are paid to marginal socialized farms and shortages of capital equipment and spare parts occur. The country could certainly benefit from an infusion of Western capital.

In Hungary, retail food prices have risen gradually over the past five years, increasing at about 15-20 percent a year. However, the government has been slow to overhaul agricultural producer prices and, as a result, prices paid to producers remain well below world levels. While this has led to spot shortages of meat, they are even less than those in Poland and do not require Western food aid. However, the shortages are symptomatic of enduring problems in Hungarian agriculture. Hungary derives substantial hard currency earnings from meat exports, but domestic production costs generally exceed revenues from exports. To maintain export profitability, the

government has sought to hold down producer prices. Even efficient producers need large subsidies to stay afloat and incentives to boost output are poor. To relieve domestic shortages, the government has been quick to divert supplies intended for export to the domestic market. But progress is needed in controlling costs and liberalizing producer prices.

Hungary's emerging markets are fragile. The government is actively promoting the entry of private middlemen into agricultural marketing and, at the same time, is developing private capital markets to make this development possible. Recent government reforms aim at import liberalization, increased joint ventures and foreign investment, and an expanded role for the private sector. Ongoing agricultural reforms include reductions in direct subsidies for most agricultural products and equal treatment of all organizations with respect to government regulations and taxation. As with Poland, assistance in the establishment of joint ventures, along with training and exchange programs, could be beneficial.

One problem both Poland and Hungary share, though, is foreign debt. During the 1980's, Poland accumulated a substantial external debt, which now amounts to over \$39 billion. Hungary carries the highest per capita debt among the centrally planned economies of Eastern Europe and plans to reduce that burden in part by improving its negative overall trade balance.

#### U.S. Agricultural Programs

The United States has now committed over \$108 million in Food Aid to Poland under a variety of programs. We will provide Poland with corn, butter, meat, vegetable oil, rice, cotton, and possibly other commodities. Based on what the Poles have told us about their need, this package of commodities should help to meet some of their greatest short-term food needs this winter as well as feed needs between now and the next harvest.

-5-

Most of the commodities are being provided under authority of the section 416 program which is a donation program. The meat, which will be pork, will be provided under section 1110 of the Food for Progress program. We are exploring other authorities in order to come up with the best possible mix for the other commodities, including both donational programs and highly subsidized sales.

Timing of deliveries will be important. The commodities which were provided in FY 89 are currently on the water and the first deliveries will be made next week. It is our intention to arrange shipment of up to 200,000 tons of corn and the meat to arrive over the next two to three months, providing that schedule is acceptable to Poland. Depending on Polish needs, we currently anticipate the other commodities will be provided either this fall or in the early months of 1990. We are in communication with the European Community and other food donor countries in order to avoid unnecessary duplication and bottlenecks. (1)

Hungary does not need food aid but is eligible for several Department commercial programs--the export credit guarantee program and the Export Enhancement Program. Hungary first participated in the export credit guarantee program in 1983. However, Hungarian purchases under the program have declined from \$30 million in 1986 to \$2 million in 1989 as Hungary has sought other suppliers, particularly for vegetable protein meals. In addition to this program, Hungary is eligible to purchase 100,000 tons of feed grains for which bonuses may be made available to U.S. exporters under the Export Enhancement Program; no purchases have been made.

-6-

In conclusion, I want to emphasize that the Administration is committed to assisting both the Polish and Hungarian governments and citizens in their efforts to introduce market principles and to build a private sector that will enable them to invigorate their economies. Mr. Chairman, this concludes my testimony. I will be happy to respond to questions.

**STATEMENT OF RICHARD BROWN**

**Mr. HAMILTON.** Mr. Brown.

**Mr. BROWN.** With my statement in the record I have no further comment but will be available for questions.

[The prepared statement of Richard Brown follows:]

STATEMENT OF  
RICHARD BROWN  
DIRECTOR, OFFICE OF EGYPT AND EUROPEAN AFFAIRS  
BUREAU FOR ASIA AND THE NEAR EAST  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
BEFORE THE  
HOUSE SUBCOMMITTEE ON EUROPE AND THE MIDDLE EAST  
OCTOBER 4, 1989

Mr. Chairman, Members of the Foreign Affairs Subcommittee:

I appreciate the opportunity to testify in support of the Administration's proposal for assistance to Poland and Hungary.

My colleague, Deputy Assistant Secretary Kammer, has described the political context within which U.S. strategic and economic interests are pursued and an overview of the Administration's proposed response to the events unfolding in Poland and Hungary. I would like to elaborate on two of the central elements of this proposal, the Polish-American Enterprise Fund and the Hungarian-American Enterprise Fund. The legislation requested by the Administration would provide the authority and financing for operation of these funds.

The Enterprise Funds are designed to promote private sector development in Poland and Hungary. Both Funds will be private organizations capable of receiving financing from the U.S. Government and from other U.S. or host country sources, both public and private. Each organization will be directed by a private Board of Directors that will set policy and provide

overall guidance on the objectives and procedures of the Funds. Day-to-day management will be provided by a professional manager contracted by and responsible to each Board. The private nature of each Board should allow the latitude and flexibility needed to achieve the Fund's purpose of promoting and financing profit-oriented private sector development. A private Board, supported by a professional financially oriented management group, can react to market forces and movements much more rapidly and skillfully than public institutions.

It is expected that each Fund will engage primarily in direct financial transactions to assist the private sector through the infusion of new capital resources. The Funds will have authority to engage in various forms of transactions, including issuance of loans to private entrepreneurs, lending to venture capital funds, taking equity positions in private companies as well as venture operations or mutual funds, issuing bonds, buying stocks and bonds, working with retail banks and generally acting as a development bank. Each Fund will also, when appropriate, provide policy and technical assistance. The Funds would also have authority to support privatization and decentralization efforts in order to help open the economies of Poland and Hungary to private sector growth.



The Enterprise Fund approach was developed for several reasons. First, the Administration believes that supporting a market oriented economy should be the principal emphasis of our assistance to these two countries. Second, working directly with the private sector, using a private sector body to manage the resources, will provide a flexible and effective way to achieve private sector development. Finally, aiming the resources directly at the private entrepreneur, rather than through the Governments, will support the system we wish to promote, even while each Government is in transition.

The current transition of the Polish and Hungarian economies and societies is history-making. This transition calls for a fresh, new approach to U.S. assistance, which we believe the Enterprise Funds provide. Although A.I.D. has had experience in the past with groups such as the Luso-American Foundation and the International Fund for Ireland, the aims and organizational structure of the Enterprise Funds are novel and different. They put aside Government intervention. They stress promotion of the private sector through the private sector.

Mr. HAMILTON. The committee will proceed under the five minute rule.

Mr. Gejdenson.

Mr. GEJDENSON. One of the things that concerns me is that we keep the focus on not simply economic reform capitalism but make sure we nurture the democratic institutions we think are fundamental for the real change we look for in Poland.

My question would go to Mr. Barreda from Treasury. What kinds of reforms are we asking or would you contemplate the IMF would ask Poland that would restructure their economy? What are the three most important economic reforms you would ask the Polish government to make?

#### CREATING A MARKET BASED SYSTEM

Mr. BARREDA. I think it is a little too early to tell you what would be the three most important.

Our knowledge base is not sufficient. I will be more general. One has to create an environment of reasonably stable prices in order to free them up. They are now all set by the government.

[The information follows:]

The immediate challenge is to establish a macroeconomic climate in which growth can resume in the context of relative price stability. Over the longer term measures are needed to transform the structure of the Polish economy toward a market-oriented system. The working outline of proposed economic and structural reforms the Polish Government gave us during their September visit to Washington, embodies numerous actions to achieve these objectives.

The best way to proceed to implement the program, the decisions regarding what measures are appropriate and politically acceptable in Poland, as well as the order and timing of their implementation has to be determined by the Polish Authorities.

Mr. GEJDENSON. Is that a function of short supply and if the supply issue is taken care of, no matter what price is set, the price would fall below it?

Mr. BARREDA. What we have in Poland is an excess of money over what the goods are available for the prices set for the goods.

Mr. GEJDENSON. You have an excess of money or a shortage of goods?

Mr. BARREDA. One is in relation to the other.

Mr. GEJDENSON. So if we are about to increase the supply of goods will setting prices be less relevant?

Mr. BARREDA. We want to free the prices so you have a market based system. If they are setting prices by fiat, they are not making the changes they need for growth.

Mr. GEJDENSON. So it is your recommendation to take price controls off?

Mr. BARREDA. First, stabilize the macroeconomic environment and then eliminate price controls and then privatize industry. Right now companies make what they are told to make and sell it at the price they are told to.

That doesn't work. They have to create an appropriate macroeconomic environment. That is what the IMF wants to do and what the Poles want to do.

Mr. GEJDENSON. How do they do that? When you start off with the government running everything, how do we in the short term give the consumer some relief and start those changes?

Mr. BARREDA. The consumers are not getting relief now when they cannot get the goods; they are waiting in lines for nothing on the shelves. Poland has to have the goods the consumer wants, that is done by a market system.

Mr. GEJDENSON. Can you possibly do that in the time that it takes for a market system to develop? Can this government survive?

Mr. BARREDA. I will not comment on whether the government can survive. You have to do it in phases. They have to set up the institutional system that permits a move to a market based system, have banks that allocate capital, and have an anti-trust system. One cannot liberalize and allow the monopolies to operate.

You have to break that up. One has to put the appropriate macroeconomic environment in place and then go to privatization.

Mr. HAMILTON. Mr. Leach.

#### NEED FOR A SAVINGS MECHANISM

Mr. LEACH. Thank you, Mr. Chairman.

This afternoon I introduced some legislation along with Frank Annunzio and Marcy Kaptur to give a credit union components to the legislation the Administration suggested we go forward with on Poland.

Second, in hearing Mr. Kamman's boss indicated some interest in this particular approach. My question today is for Treasury. My concern on this whole issue partly touched upon by Mr. McMillan who testified earlier that there is a substantial amount of resources that does not go into traditional financial resources in Poland. How do we create a savings mechanism for the people? There is a credit union system that is about 100 years old.

It is not well developed. We have seen the visit of some Polish leaders to the American credit union environment and desiring to go forward with the business. American credit unions are prepared to give technical as well as financial assistance to Polish credit unions. Would the Treasury look with interest at a move to build up the credit union movement in Poland?

Mr. BARREDA. The Treasury would look at that with interest. We would, of course, have to look at the details of the bill. Mr. Brown may want to comment if you have linked that to the enterprise funds.

Mr. LEACH. It would be linked to the enterprise funds. I am just asking that people have an open mind to this issue. Your approach is kind of an investment banking approach. This approach is actually involving a more traditional banking element although it is from the credit union perspective rather than a commercial bank perspective.

What it does is mandate about \$8 million of the funds from Poland and \$1 million for Hungary for technical assistance and perhaps supports.

[The information follows:]

The major factor inhibiting voluntary savings in Poland has been the level of interest rates offered on savings deposits. These rates have been lower than the rate of inflation (i.e. negative real interest rates). Enterprises with excess funds found it more profitable to invest in inventories or new projects rather than leave such funds in the banking system. Similarly, households were induced to spend rather than

hold funds which would lose value in savings accounts. Thus, the most effective means of increasing savings would be to have the financial institutions in Poland operate on a profit-making basis, charging real positive interest rates (i.e. rates above the rate of inflation) on loans which would enable them to pay positive rates on deposits.

Let me move to one other precise question for Mr. Kamman. One of the issues often in novels about American finance that no one understands is the issue of pork belly futures. It happens with regard to Poland there has been serious consideration.

The Agriculture Department has considered transferring to Poland some pork bellies. I wonder if you could tell us the status of the pork issue. Let me say as a representative of a pork producing part of the world, I have a personal interest in the issue and I think it is a type of thing we can appropriately help the Polish people with.

With that kind of introduction, can you tell us, are we going to be selling any pork to the Poles?

Mr. KAMMAN. I will defer to Chris Goldthwait from Agriculture but I will say I was involved in that consideration. There are two reasons, they can use it as bacon, that is consume these directly in their diet or use it to make sausage. The key things the Poles asked about when they were asking for food assistance was meat. The European community's aid to Poland in the food area has included a considerable amount of meat.

Meat is almost an icon in Poland; it is the crucial distinction between eating well and not eating well. It has been a politically volatile issue. That is why the government has wanted to supply the needs of people for meat.

There has not been any on the market. Chris?

Mr. GOLDTHWAIT. The idea arose because of the different categories of meats, the Poles are most fond of pork. They requested from the Western donor countries pork in addition to beef.

The European community shipped beef and we thought we would provide pork. I visited Poland three weeks ago and discussed various possibilities with them. The expressed interest in low priced cuts of pork, that when they get to Poland will be sold at relatively inexpensive levels. So one of the areas on which we focused attention was the pork bellies.

Secretary Yeutter announced a few days ago that they will be shipping several thousand tons of pork bellies to Poland.

Mr. LEACH. We have heard a lot that the Polish Church is not exactly a non-political church, but it is the first time I have heard that it is a non-vegetarian church as well.

I appreciate your comments.

Mr. HAMILTON. Mr. Wolpe.

Mr. WOLPE. I would like to pursue some questions related to the \$2 million figure just advanced by the Administration in response to the request for \$1 billion in economic stabilization assistance.

Can you give us an indication of where the remainder of the \$1 billion is going to come from? What can we expect from the Japanese and other contributors to that \$1 billion goal?

Mr. KAMMAN. The \$200 million we announced is our concept of how to get the ball rolling for the total the Poles have judged they will need when they embark on their structured reform on an

agreed program with the IMF. We are the first nation to announce we will do our share and put our figure on it for that target of \$1 billion. That is contingent between Poland and the IMF.

The President indicated that he will be urging our partners in the economic summit nations and other industrialized nations of the west to do their fair share. Although we do not have specific assurances from them, I think the understanding among all the nations of the west of the importance of assisting Poland in this very vital structural change in order to keep that country moving in the direction of democracy will be sufficient incentive for our partners to do their share.

I think obviously the major industrialized countries like Japan, Germany, Britain, will all be major contributors, but we are the first to make that pledge.

Mr. WOLPE. Than at this point there is no specificity with respect to the nature of the response from Japan and the other partners in the effort?

Mr. KAMMAN. That is correct. The Poles have put forward their reform plan only 10 days ago. The finance minister came to Washington in late September. The last details of this plan were being actually put on paper here in Washington just 10 days ago. The world has not had a great deal of time to react to this.

The plan has been sent to the IMF. They have not formally reacted, although they have shown great interest. We felt at this stage it is important for us to show our leadership as we do in bringing this to the attention of the Group of Seven nations as we did in the Paris summit.

We do count on other nations to do their part and we think it is crucial.

Mr. WOLPE. Can we expect more than the \$200 million figure from Japan?

Mr. KAMMAN. I cannot give you an estimate of who will do what. The Japanese I think have been considering what the others will do. They have taken the view that perhaps Asia is their highest priority.

They have begun I think to understand now that this is an issue of global importance. I am confident that they will do their share but I don't know how much it will be.

Mr. WOLPE. Where will the \$200 million come from in the American budget?

Mr. KAMMAN. When the Administration presents these funds for the grant funds to the Congress, the details of the budgetary side of it will be presented at that time. I am not able to answer that question.

Mr. WOLPE. When can we expect to get an answer for that?

Mr. KAMMAN. I think perhaps within a couple of weeks. It should be quite soon.

#### ADMINISTRATION'S REACTION TO H.R. 3402

Mr. WOLPE. Can we also have the Administration's reaction to the other proposal that was advanced yesterday in the Congress, 3402, H.R. 3402, which proposes a figure of \$800 million for a more comprehensive effort here?

Mr. KAMMAN. I think that bill now has a number. We looked at it only in a very quick fashion in draft. My understanding of it is that some of that money is either rescheduling or is in the form of investment guarantees. In other words, it doesn't represent immediate budgetary drains of that same amount.

At this point I think I could only say that the Administration's proposal is at the level that we feel is adequate and appropriate and I have no remarks about the higher levels proposed.

Mr. WOLPE. I see my time has elapsed but as a general proposition I share in what you are sensing to be a very broad bipartisan concern that we are being very slow to react.

It is remarkable how easy it is to come up with the dollars within the military budget to fight in the military sense the communist threat to American interests but somehow when it comes to advancing a fraction of the cost to preserve and consolidate democracy, we have difficulty finding the resources for that. I find that extraordinarily shortsighted and I hope we are not going to lose a unique historic opportunity.

Mr. HAMILTON. Mr. Lukens.

Mr. LUKENS. Thank you. I know that in the 1970s when the western world rushed to help the socialist countries we were all stung for billions and billions and billions of dollars because they made no economic and political structural changes. I would first ask, to date what assistance has the European community en bloc and individually given to assist the Poles. Before today the American contribution was rounding out about \$100 million and a little more.

Now it has increased. EC was \$140 million. Can you break that down for me?

#### BREAKDOWN OF EUROPEAN COMMUNITY'S FINANCIAL CONTRIBUTION

Mr. KAMMAN. Mr. Congressman, the EC announced food aid in the amount of \$140 million. They have in the past week announced that they will offer over \$200 million U.S. dollars.

To be precise, if you convert it into dollars, it would be \$218 million U.S. dollars from the EC's own funds for non-food aid. This is all basically 1990 money. They have asked their members as individual members to add to that another \$109 million U.S. dollars, making a total of almost \$330 non-food aid plus the \$140 million in food aid.

Mr. LUKENS. Have they responded?

Mr. KAMMAN. Several have done so. The foreign ministers of the EC met yesterday in Luxembourg and accepted the \$300 million target for them.

Mr. LUKENS. What type of loans or credits are tied to these EC loans?

Mr. KAMMAN. These are a variety of programs based upon the expenditure of funds, the agricultural, the food aid is by and large surplus food commodities. It is being provided essentially gratis. Some of these are programs for management training, other forms of technical assistance. I can't break it down any further for you.

Mr. LUKENS. Basically, the food is a loan and grant program?

Mr. KAMMAN. That is right.

Mr. LUKENS. And the others will be mixed. Will there be any grants mixed in there? Are they giving any free money?

Mr. KAMMAN. I think they are intended certainly in the \$200 million for non-food aid, that is intended primarily to be grants but the actual break down we don't have at this point.

Mr. LUKENS. Could you give me the approximate amount of Poland's foreign debt to the EC?

Mr. KAMMAN. The total Polish debt is approximately \$40 billion. Of that amount, I think over half is owed to the EC either in the form of official or bank credits.

Mr. LUKENS. How much is private, do you know?

Mr. KAMMAN. I am sorry, I don't have the figures. Bill?

Mr. BARREDA. Most of the debt is to the European Community. The total debt of Poland is considered to be \$39 billion. Of that, about \$9 billion is private. The U.S. share is \$3 billion official and about \$300 million private.

Mr. LUKENS. Can anyone tell me, has Japan provided any assistance to Poland or Hungary to date or have they been asked?

#### EXPORT CREDITS FOR HUNGARY

Mr. KAMMAN. Japan has announced a substantial amount of export credits for Hungary because they consider Hungary to be creditworthy. They have not come forward on Poland yet but they are aware of the importance of it and would have something to offer.

Mr. LUKENS. I hope we can do as much as possible for Poland and Hungary in view of the extreme economic circumstances. I hope they are making political and economic restructuring their first priority because if we dump money on a system that shows it cannot survive and reduce the private, the margin of security for the individual, that point is wasted. I assume everyone here is more interested in the kind of restructuring going on concomitant with their political structure.

Mr. SOLARZ. Thank you very much, Mr. Chairman.

Let me just say at the outset that the administration, in my judgment, deserves credit for its willingness to come forward today with a proposal to provide \$200 million as part of a multi-lateral exchange stabilization program for Poland. By that gesture they have rescued what otherwise would have been the contemporary equivalent of the Yalta Agreement and transformed it into the contemporary equivalent of the Truman Doctrine.

Without that, I fear our response would have been woefully inadequate. With it, I think we have the elements of a truly significant package.

First question, are you asking for a separate authorization for the \$200 billion American share of the multilateral economic stabilization fund or are you planning to take the \$200 billion from the exchange stabilization fund of the Treasury?

Mr. BARREDA. It would be a new appropriation.

Mr. SOLARZ. Presumably you would like to see in the bill we are going to be reporting out of our committee an authorization for the \$200 billion for that purpose.

Mr. BARREDA. Let me refer you to the State Department.

Mr. KAMMAN. We would like to provide the details of the administration's proposal. It is intended to be an authorization and to be in a grant form.<sup>1</sup>

Mr. SOLARZ. Do you expect the money for this will come from an add-on to the deficit or from reprogramming funds that were previously appropriated?

Mr. KAMMAN. We have the option under Gramm-Rudman. It would therefore have to be found from other sources.

#### THE ENTERPRISE FUND

Mr. SOLARZ. I hope you can move expeditiously on this. This legislation is going to be reported out of our committee relatively soon. The train is leaving the station. Obviously we would like your input.

You have seen a copy of the draft bill which has now been introduced. You have looked at the Senate Foreign Relations Committee bill. I want to ask you to comment on some of the specifics in both.

One of the major differences between them is that in the Senate bill they authorize 1.1 billion dollars over three years for the Enterprise Fund. The House version, which we will be marking up, provides, I believe, \$200 million over three years for the Enterprise Fund.

What is your preference? Which do you favor? Are you against both?

Mr. KAMMAN. I would like to address the previous point a little bit in saying that the use of this \$200 million would be contingent on Poland reaching agreement with the IMF. Most people don't expect that to happen before the end of the year. There is some time. We would also wish to have the judgment of the President's commission going to Poland before we decide.

Mr. SOLARZ. An authorization doesn't require that the money be spent. There is no reason we can't put that into place contingent upon an IMF agreement.

Mr. KAMMAN. In terms of the use of the appropriations for the Enterprise Fund, as I stressed in my statement, this is a new animal, the idea of setting up an organization which would look over ways to strengthen the Polish sector. We think it will work primarily in the long run and in connection with the construction reforms Poland is already making.

Therefore, the absorption capability of this new institution may not be all that great, especially in the first year.

Mr. SOLARZ. Does that mean you are opposed to any effort to increase the funding over three years from the level requested by the administration, which is \$125 million?

Mr. KAMMAN. The administration felt that that was a suitable amount, adequate to the test we envision for the Private Enterprise Fund. Admittedly, the fund was conceived in a period when we did not have a coalition government led by solidarity. We still believe that is an appropriate amount.

Mr. SOLARZ. I differ with you there. I think it is pitifully inadequate.

<sup>1</sup> The Bureau of Economic and Business Affairs did not provide the insert.



The House bill has \$200 million for trade credit insurance. The Senate bill has nothing. The administration's bill has nothing in that category. Do you have any thoughts on that? Are you for it or against it?

Mr. BARREDA. We have not analyzed that and we will get back to you on that.

[The information follows:]

A trade credit and insurance program with AID serving as guarantor would facilitate exports to private sector entities in Poland, an objective we support, by enabling Eximbank to determine that reasonable assurance of repayment exists for such short-term transactions.

Mr. SOLARZ. The House bill has \$10 million for technical training, the Senate bill has nothing and the administration bill has nothing.

Do you have any view on that?

Mr. KAMMAN. What kind of technical training did you have in mind?

The enterprise fund would envisage some. Management training would be a part of the concept of the enterprise fund.

Mr. SOLARZ. The Senate bill has \$25 million for telecommunications. The House bill seems to have nothing there.

Mr. KAMMAN. I think that was to address the business impediment of the inadequate phone system in Poland. Certainly the phone system is inadequate. Whether that would be a top priority, we think we would favor our version of the bill.

Mr. SOLARZ. If we decided to put more money in this bill for Poland than the administration is requesting, would the President veto the bill?

Mr. KAMMAN. I am not prepared to say at this moment.

Mr. HAMILTON. Mr. Bereuter.

Mr. BEREUTER. Mr. Chairman, I am still catching up here. May I defer to Mr. Smith first?

Mr. HAMILTON. Mr. Smith.

Mr. SMITH of New Jersey. Thank you.

Mr. Kamman, since Poland is approximately \$39 billion in foreign debt, what do you see as the applicability of the Brady plan to Poland? How does that \$39 billion break down into 1990 service payments? How much do they owe for that year?

#### THE BRADY PLAN

Mr. KAMMAN. I think the expert would be Mr. Barreda. One thing about Poland, most of the debt is official and not private bank. The Brady plan is essentially for private bank debt.

Mr. BARREDA. That is right. The Brady plan is for private debt. That is about \$9 billion for Poland. Any country is eligible for the Brady plan. The conditions are an IMF program, and domestic policies that encourage private investment, including foreign investment. Subject to those conditions I think we could consider the application of the Brady plan.

Its benefit is that permits it various options to either reduce the total outstanding debt such as buying back the debt or reduce interest rates through one method or another.

If those conditions are met, we certainly would consider it for Poland.

Mr. SMITH of New Jersey. What is the anticipated service payments in fiscal year 1990 for servicing that debt?

Mr. BARREDA. Working with the Poles right now, estimates are in the order of \$3 to \$4 billion.

Mr. SMITH of New Jersey. Could you tell me what the status of the Paris Club restructuring negotiations are?

Mr. BARREDA. We have been consulting with our allies in the Paris Club and with Polish authorities on the best way to proceed.

We are looking at options now to see what the Poles would prefer. The U.S. position has been pushed strongly. We favor a generous, prompt debt relief in the Paris Club. That is what we are pushing for.

#### IMPACT OF FOOD AID

Mr. SMITH of New Jersey. In addition to the \$100 million in food assistance and the \$140 million from the EEC, what do you see as the impact of this food aid on the domestic producers in terms of their price, and productivity? Is there any fear this could have a negative impact?

Mr. GOLDTHWAIT. I believe one reason we are moving very deliberately with the food aid is to avoid any negative impact on the domestic producers. We believe that we can increase the supply of some of the essential commodities within the Polish system to some degree without destabilizing the price adjustment that is currently going on which will, in fact, stimulate Polish agriculture's further development.

It is important we be careful with the timing of our deliveries and coordinate with other food donors in that regard.

Further, we believe that some of the commodities that we are providing, for instance, the feed grains, will help to address the great scarcity of inputs that Polish agriculture faces. We very, very much have in mind, and our colleagues in other countries very much have in mind this kind of thing.

Further, the share of the total supply of commodities that we will be providing through our food assistance is a very small percentage of the total supply. It will to our best ability be concentrated in those months when Poland's own domestic supply is the most constrained. Further, the quantities we are talking about will be somewhat less than Poland's imports of these commodities in the early 1980s.

Mr. SMITH of New Jersey. Thank you, Mr. Chairman.

Mr. HAMILTON. Mr. Smith?

Mr. SMITH of Florida. We intend, do we not—I would appreciate whoever wants to answer—to alleviate some of the severe food shortages in Poland by making direct shipments from U.S. stores or purchases to Poland?

Is that correct?

Mr. GOLDTHWAIT. That is basically correct.

Mr. SMITH OF FLORIDA. That would be paid for out of some of the money that will be authorized?

Mr. GOLDTHWAIT. In some cases the commodities are owned by the Commodity Credit Corporation, the Department of Agriculture.

Mr. SMITH of Florida. The replacement cost is still there; correct?

None of this is free?

Mr. GOLDTHWAIT. Well, in effect for most of the food grants and butter we are providing, the outlays have already occurred under the agricultural support programs.

#### WAIVER OF CARGO PREFERENCE

Mr. SMITH of Florida. There will be corn, wheat, things of that nature. If I might, I want to ask a question about that. Is your intention to waive or ask for a waiver of cargo preference and use non-American bottoms on the shipments of these grains to the Polish people?

Mr. GOLDTHWAIT. The administration is not seeking any change in current maritime law.

Mr. SMITH of Florida. Which means they will not seek a waiver of American bottom shipment?

Mr. GOLDTHWAIT. That is correct.

Mr. SMITH of Florida. You are telling me that it will be administration policy to ship all of these on American bottoms; is that correct?

Mr. GOLDTHWAIT. Current policy is 75 percent of donated shipments must go on American bottoms.

Mr. SMITH of Florida. You will not be seeking waiver?

What about the cost of the food stuffs? Some of the significant costs for different items of food when compared against other items of food available elsewhere are significantly higher. For instance, American wheat was \$165 a metric ton, but Argentinian wheat was \$140 a metric ton, which is about 10 percent cheaper. Do we intend to use only American wheat?

If so, do we intend to use it out of stores, previously purchased commodities and surplus. Or do we intend to go out on the open market and buy it? If so, where do we intend to buy it?

Mr. GOLDTHWAIT. Currently wheat is not in the package that has been approved and announced for delivery to Poland.

Mr. SMITH of Florida. I appreciate that. The same type of price structure differential exists, however, with some of the other commodities.

Corn, vegetable oils and the like. What do we intend to do in those areas? Will we be using generally American stores?

Mr. GOLDTHWAIT. That is correct.

Mr. SMITH of Florida. Do we intend to allocate any of the shipment of these items to any other foreign bottoms, including Polish bottoms, other than the 25 percent that is allowed under the existing law?

Any other way we intend to do that at the moment?

I am concerned, frankly, as you can see from my questions, that in the process of providing the things so desperately needed, we don't penalize one part of our economy while helping another part of our economy. That would be my concern.

We don't have any intention of doing that, do we?

Mr. GOLDTHWAIT. We don't with respect to the food aid portion of it. We expect that the portion that would be transported on non-American ships would be no more than the 25 percent.

Mr. SMITH of Florida. Because I heard that there was a debate on the Floor of the Senate and that in addition, certain export grain associations representatives have indicated that, in addition to costing, sending out American bottoms costs as much as 40 to 50 percent higher in U.S. funds.

But at the same time apparently there was a debate on the Floor of the Senate where people were quoting prices at \$15 per ton rate and the actual—that is for Polish-flag vessels—is \$65 a ton on a Polish-flag vessel. I am curious if, in fact, the United States is supposed to keep fairly accurate figures on these kinds of charges? Why is there wide disparity in what is being represented? In fact, what are the actual costs? Can any of you give me the costs? Does anyone have that kind of information?

Mr. GOLDTHWAIT. Mr. Congressman, we have also looked at that situation. I believe one of the reasons for the wide range of costs estimates is that most of these commodities have not been transported from the U.S. to Poland in recent months. We are going back in many cases to earlier figures.

We have made some estimates as well in this regard.

Mr. SMITH of Florida. Don't we have actual bids having been submitted by some folks already?

Mr. GOLDTHWAIT. Not yet, no. We have one figure which I can perhaps cite. The per ton cost of the shipment of grains sorghum for the fiscal year 1989 shipment, which has, in fact, been made, was I believe \$85 a ton. That was on a U.S.-flag vessel.

Mr. SMITH of Florida. All right.

Thank you very much.

Mr. HAMILTON. Mr. Bereuter?

Mr. BEREUTER. Thank you, Mr. Chairman.

I had not intended to pursue the matter of shipping rates and cargo preference. The gentleman has brought the subject up. I would ask unanimous consent to submit several articles for the record from newspapers.

Mr. HAMILTON. Without objection.

[The information follows:]

# EC Ministers Vote New Aid to Poles

## 12 W. European Nations Offer \$300 Million to Back Reforms

By Edward Cody  
Washington Post Foreign Service

PARIS, Oct. 3—Western European governments decided today to provide more than \$300 million in additional aid and to consider increasing soft loans as part of a Western effort to support the political and economic reforms under way in Poland and Hungary.

The decision by the 12 European Community foreign ministers, meeting in Luxembourg, in effect endorsed a plan put forward Sept. 26 by the European Commission in Brussels. That project called for a total of \$660 million in additional aid next year to the two Eastern European countries from 24 of the world's richest nations.

A French Foreign Ministry official said today's European decision put the spotlight on the 12 non-European governments, particularly those of the United States and Japan, to see whether they will chip in with their share of the ambitious plan worked out by the European Commission, the EC's executive body.

The commission was assigned the task of working out a joint aid plan for Poland and Hungary during the Paris summit conference last July of the seven major industrialized democracies. President Bush, who came to Paris from a visit to Poland and Hungary, took the lead then in promoting a coordinated aid effort as a way to encourage the radical transformations away from traditional Eastern European communism.

Since then, however, the Bush administration has come under criticism in Washington as well as Europe for the amount of U.S. money it has been willing to commit to the effort begun at the Paris summit. European leaders, asserting a responsibility flowing from historic links between Eastern and Western Europe, have seemed to take the initiative in getting support to the sagging Polish and Hungarian economies.

The White House announced \$50 million in additional emergency food aid in August. As complaints rose in Congress that this amount was insufficient, the White House announced another \$50 million on Sept. 14, for a total of \$100 million to finance swift delivery of badly needed food from U.S. stocks.

In the meantime, the EC had set aside \$120 million for emergency food aid from its surplus supplies, particularly for Poland. Despite a slow start, truckloads of frozen beef have been rolling toward Warsaw since early this month and grain deliveries are being organized by officials in Brussels.

The aid amounts accepted by European governments today are in addition to the emergency food shipments. They would be part of a program for 1990 designed to be the first stage of a long-term and coordinated aid effort to help Poland and Hungary continue the transformation of their economies already under way to move from stultified socialism toward more free-market orientation, European officials explained.

The foreign ministers in Luxembourg halted what they said was progress in the restructuring.

"The process remains fragile nonetheless and could be called into question by economic problems," they added in a communique. "Bearing in mind the need for Poland and Hungary to reach rapid agreement with international financial institutions, the Council [of EC ministers] recognizes the urgent need for additional measures of support."

Poland has calculated its foreign debt at \$39 billion. Although the European-led aid program was designed to remain apart from separate International Monetary Fund negotiations on easing debt pressures, the ministers today also suggested additional loans to accompany the IMF measures.

Some reports suggested Poland and Hungary could become eligible for up to \$1.1 billion in easy loans over the next three years from the European Investment Bank, the EC's development loan affiliate.

European finance ministers are scheduled to discuss this proposal Monday at a separate meeting in Luxembourg, the reports said. But British Foreign Secretary John Major cautioned that settling the level of European financial assistance should await whatever arrangements are worked out between Poland and Hungary and the IMF.

The 1990 aid totals accepted today represent an allocation of \$215 million from EC budget funds and another \$110 million to be provided by the 12 EC members individually. The European finance ministers were scheduled to approve the community budget shift at Monday's meeting and begin discussions on parceling out contributions to make up the additional \$110 million.

Despite the declared European willingness to provide more aid, Major emphasized that the ultimate success of reforms in Eastern Europe depends on that region's own leadership.

"The success of what is happening in Hungary and Poland will substantially depend on what the governments there do," he told reporters. "We can help and sustain them, but it is the economic reforms that they put in place that will determine their success."

Des Moines Register

# Shipping costs cut into U.S. aid for Poland

By GEORGE ANTHAN

The Register's Washington Bureau Chief

WASHINGTON, D.C. — An estimated one-third or more of U.S. food aid to Poland will be diverted to pay the extra costs of shipping the commodities on U.S.-flag vessels, which currently are charging four times or more the world ocean freight rates.

Thus, the \$108 million in Polish food assistance announced by President Bush may be decreased by as much as \$35 million, according to officials of U.S. grain companies and some private experts. A representative of the Polish government agreed privately.

Senator Charles Grassley (Rep., Ia.) said, "A very large percentage of our aid [is being] diverted into the



CHARLES  
GRASSLEY

POLAND

Please turn to Page 10A

## Shipping costs cut aid for Poles

POLAND

Continued from Page One

pockets of the maritime industry."

He called the situation "a senseless misappropriation of the taxpayers' dollars."

### Controversial Subsidy Law

Representatives of the Polish government have told officials of American grain firms that on one shipment of corn and sorghum, almost one-half the money allocated by the Bush administration must be paid to U.S. shipowners under a controversial Merchant Marine subsidy law passed in 1985.

The so-called "cargo preference" law requires that at least 75 percent of all U.S. food aid must be shipped in U.S.-flag vessels.

One U.S. ship, the Spirit of Texas, is due to be loaded sometime in October with aid commodities bound for Poland, according to industry officials.

The Poles will be charged \$84.95 a ton, even though the corn and sorghum in the shipment are valued at about \$100 a ton.

Officials of U.S. export grain firms said Polish and other non-U.S. ships

are available at a cost of \$15 to \$25 a ton.

Steve McCoy, president of the North American Grain Export Association, said Polish trade officials in New York have informed his group's member companies that they could have arranged for Polish or other non-U.S. vessels to move the first shipment of aid commodities at about one-third the rate being charged by the U.S. ship.

### "Should Be Outraged"

"U.S. taxpayers and friends of Poland should be outraged that so little of the funds provided by the U.S. shall be used to purchase commodities desperately needed in Poland," McCoy said.

He added, "The over-market freight rates charged by U.S. shipping companies defeat the purpose of making food aid available and beg the question of whom food aid benefits more: the Poles or U.S. shipowners."

Carol Brookins, president of World Perspectives Inc., a private consulting firm here, said the first shipment to Poland in October will consist of 11,500 tons of sorghum and 4,500 tons of butter.

She said a second shipment before the end of the year is expected to consist of 200,000 tons of corn and sorghum.

### "Down a Rat Hole"

McCoy said, "We are throwing money down a rat hole. We are squandering money here. The Poles themselves have a merchant fleet that is largely idle. So it's kind of a double whammy. You eat into the food available to the Poles, and at the same time you don't use their fleet."

McCoy continued, "When we said we'd give them \$108 million in food, you had the assurance we meant \$108 million, not \$60 million. Anyone who has a conscience about helping the Poles has to be disturbed about this."

Grassley last week tried to amend an appropriations bill to waive the cargo preference law on Polish aid, saying, "This is the time to maximize what few, or many, dollars we can offer to the Polish people."

The amendment was opposed by senators from coastal states, who said it wasn't germane to a spending bill. Their position was backed by the Senate on a 64 to 33 vote. Senator Tom Harkin (Dem., Ia.) voted to kill Grassley's amendment.

# Poland Aid Plan Revives Ship Issue

WASHINGTON — The U.S. plan to give Poland's fledgling democracy \$100 million in emergency food aid is snarled in an old political battle over how much money will be siphoned off for subsidized U.S. shipping.

Industry analysts estimated that up to half of the \$100 million aid budget could go toward paying the cost of transporting the food to Poland.

The politically sensitive shipping issue stems from the U.S. cargo preference law, which requires that most food donations be sent overseas on high-priced U.S. merchant ships.

The analysts said it will cost at least 25 cents a pound to deliver pork to Poland that sells wholesale for about 35 cents.

To alleviate severe shortages and raging food inflation, Poland's new reform government — the first non-communist governing coalition in the Soviet

bloc in 40 years — has asked other nations to donate nearly 700,000 metric tons of emergency food stocks this year. Warsaw

The Bush administration is not likely to take action against subsidies for declining Polish industries. Story, Page 10A.

also wants 3 million metric tons of grain and 25,000 of meat in both 1990 and 1991.

The Bush administration has pledged donations of corn, wheat, sorghum, butter, vegetable oils and pork bellies, used to make bacon.

Virtually all the U.S. aid will be sent on U.S. ships.

Private estimates indicate as much as 40% to 50% of U.S. funds devoted to current Polish bulk grain food aid may be swallowed up subsidizing higher-than-world freight rates charged by U.S. shipping compa-

nies," said Steve McCoy, president of the North American Export Grain Association.

Such costs, he says, "defeat the purpose of making food aid available and beg the question of whom food aid benefits more: the Poles or U.S. shipowners."

Government and union officials agree that costs are higher on U.S. vessels but deny the disparity is 50%.

"You have \$30 billion a year in subsidies to the U.S. agriculture industry, and nowhere near that amount for the maritime industry," says Gary Misch, assistant administrator of the U.S. Maritime Administration.

"The law only applies on the giveaways, only where the U.S. taxpayer is footing the bill" for aid, Mr. Misch said.

Republican Sen. Charles Grassley of farm-belt Iowa made an unsuccessful proposal to exempt Poland aid from the

cargo preference law and thus free more money for food.

A recently contracted shipment to Poland of 11,500 metric tons of sorghum cost \$84.95 a ton — a tab that could have been cut to only \$30 without the preference, Sen. Grassley said.

Mr. Misch disagreed, saying that on average it costs only \$23 to \$25 more a ton to ship bulk food on U.S. vessels.

Another more technical problem is how to get tons of bulky, perishable pork bellies to the Poles in a condition fit to make bacon. The commodity has never been supplied before under emergency food programs.

The Agriculture Department, at the request of the National Pork Producers Council and the Polish government, will ship 7,000 to 10,000 metric tons of pork bellies to Poland. The council wants to reduce high U.S. pork stocks. (Reuters)

## Crowder Urges Preference Rules Waiver

Wright-Field Press

WASHINGTON — U.S. Department of Agriculture Undersecretary Richard Crowder Thursday said costly U.S. cargo preference requirements should be waived to boost the value of U.S. food aid to Poland.

During a television interview, Mr. Crowder said he thought the action was appropriate, in this single instance.

"It's an opportunity for the people involved with cargo preference . . . to enhance the value of the food aid we do have," he said.

By law, at least 75% of all U.S. food donations must be shipped on U.S. ships, whose rates are higher than other shipping nations.

JOURNAL OF COMMERCE  
9-29-89

# The Boston Globe

Fr  
High

FRIDAY, SEPTEMBER 29, 1989

\*36 cents at newsstands beyond 30 miles from Boston

## US shipping rates could eat up to 40% of food aid to Poland

By Walter V. Robinson  
Globe Staff

WASHINGTON — Because of inflated American shipping charges guaranteed by law to the subsidized US maritime industry, an estimated one quarter to one third of the \$106 million in emergency food aid for Poland will actually go into the pockets of US shipping companies.

In a controversy laden with irony, a free-enterprise-minded Polish maritime service, bidding to do the job for much less, has run afoul of a state-subsidized American shipping industry long insulated from the sort of free-market principles that the United States is urging Poland to adopt.

Then too, the American labor movement's Solidarity with Poland's workers and their economic plight ended abruptly on this issue, with their opposition to taking the shipping work away from the Americans and giving it to the Poles.

Senate Democrats also have been ensnared by the issue. First, they complained that President Bush had offered the Poles too little food aid. Then, after Bush doubled the amount, they promptly turned around and voted to keep the food on US ships, thereby limiting the amount of food Poland will receive.

Last week, Polish officials were stunned to learn that US maritime companies plan to charge them \$16 million to ship the first \$20 million in corn and sorghum that is intended to help alleviate hunger in Poland.

The heavily subsidized US shipping industry, whose rates are far higher than prevailing world shipping rates, is guaranteed 75 percent of the food's shipping SHIPPERS. Page 13



# US shipping rates could eat up to 40% of food aid to Poland

## SHIPPERS

Continued from Page 1

under so-called cargo preference laws that are designed to help keep the ailing industry afloat.

For the first shipment of sorghum, 11,500 tons aboard the *Spirit of Tulsa*, the Polish broker arranging the shipment is being charged \$85 a ton, against an average rate worldwide of about \$25 a ton. The grain itself costs about \$100 a ton.

But the broker, W. Piechowski of Polloods Corp., said in an interview yesterday that the Polish maritime service has offered to deliver the food to its own home ports at about \$15 a ton, well below the prevailing world rate and \$70 a ton less than US shippers are charging.

"This is absolutely scandalous," Steven A. McCoy, president of the North American Export Grain Association, said of the cost. "In the purpose of this emergency aid program to feed the Poles or to support the US shipping companies? It is ironic that the way we are keeping this industry in business is

by taking food out of the mouths of starving people."

McCoy said he believes the shipping costs may ultimately eat up as much as 40 percent of the \$108 million aid package.

Last week, Republican Sen. Charles E. Grassley of Iowa sought to exempt the Polish emergency aid program from the onerous, and costly, cargo preference laws, arguing that shipping the food on cheaper foreign flag vessels would increase, by 60 percent, the amount of food that will reach Poland.

But, after arguments by senators who support the politically powerful maritime unions and shipping companies, Grassley's attempt fell short, 64-33. In a late-night vote that received no public attention.

Grassley, who with the help of Senate Minority Leader Bob Dole of Kansas, plans to make another attempt to win the exemption, has a home-state stake in the issue. A large part of the \$108 million aid package will be pork bellies, which are used to make bacon and sausage.

Pork bellies are plentiful right

now, US officials said last night. So if Grassley is successful in winning the exemption, and shipping costs fall, the aid package will include more pork bellies, allowing Iowa hog farmers to reduce the pork-belly surplus.

To ship pork bellies and butter, which is also on the food-aid list, US carriers will charge about \$339 a ton for refrigerated cargo, more than double the estimated \$162 a ton asked by foreign flag carriers.

The public eruption of the dispute is rare, but the practice of US shipping companies earning a handsome cut of the US food aid budget is not. Philip Christenson, assistant administrator of the Food for Peace program at the US Agency for International Development, said last night that shipping costs amounted to about \$300 million of the \$1.5 billion program last year.

The US Maritime Administration, which promotes the US merchant marine industry, estimates that the cargo preference laws boost the delivery costs of that food by \$110 million to \$120 million over what the US would pay if it re-

lied on cheaper foreign-flag carriers.

The dispute has also served to expose the underbelly of one of the least of the subsidized, protected and regulated US industries. Trucking and airlines have long since been deregulated, but not shipping. With the average US merchant seaman paid \$325 a day in salary and fringe benefits, US salaries are estimated to be four times those paid by foreign carriers.

In addition to the subsidies in the food-aid program, the industry is protected by laws that require that any domestic shipping, say from Alaska to California or Texas to New York, be done aboard US-flag carriers built in US shipyards and carrying US crews; and that all Defense Department shipping be done on similar US ships.

In addition, to make US carriers more competitive in commercial worldwide shipping, the US government last year provided operating subsidies of \$197.5 million to 22 companies with 63 ships. If that operating subsidy alone were divided among the 12,000 employees in

the entire industry, it would average \$16.456 per person.

Despite such help, the industry continues to atrophy. The United States, first in the world in 1945, now ranks 11th worldwide in number of merchant ships afloat. Despite the subsidies, just 4 percent of US goods are carried aboard US-flag ships. US companies prefer cheaper foreign carriers.

"This is just out and out protectionism," asserted Lawrence J. White, a professor of economics at the Stern School of Business at New York University and the author of a 1966 book on the worldwide shipping business. "If we don't like

protectionism as practiced by the Japanese, we should be equally opposed to this type of protectionism at home."

The industry owes its special niche to the notion that the government must subsidize its fleet to have a reliable merchant marine on hand in time of war.

But White, while acknowledging that the industry has successfully wrapped itself in "the national security mantle," said it does not have the smaller, flexible, leaner kind of ships the US would need in the event of war. His conclusion is that the industry should be deregulated and forced to compete, and that it would survive.

Mr. BEREUTER. The agricultural industries estimates are that the additional cost to move the grain products to Poland will be eating up 40 percent of the total food aid we are authorizing. The Boston Globe article on September 29 indicated that of \$20 million in corn and sorghum going over, 16 additional millions would be charged to move it.

In that same article it indicates, correctly or incorrectly I am not sure, that the Polish maritime service offered to deliver food to its own homeport at about \$15 a ton whereas the U.S. rig is estimated to be \$85 a ton, and the worldwide rate is about \$45 a ton.

I would like to go on to other matters since that will be in the record and the Senate has already debated this issue.

I am quite concerned that we not make the same errors we did in the early 1970s and put a tremendous amount of aid into Poland without the necessary restructuring. I think you heard that from my colleagues in the past. There already is evidence that there is tendency to throw an extraordinary amount of money at Poland without demanding a kind of structural reform take place.

It is different than emergency humanitarian aid. I am concerned we will make that same difficult problem.

I am also concerned that while we are beginning to see the Polish agriculture economy come back, that we take greater care not to devastate it. Even though that may not be in the best interest of my constituents who happen to be in agriculture, I am concerned we not devastate that sector that is coming back.

#### AMERICAN BANKS—BARRIERS TO ENTRY

Beyond that I have seen comments from Lech Walesa saying the number one need in Poland right now is for American banks, commercial banks come over and open branches there. I am wondering what the Treasury can say about not only credit unions, but what kind of encouragement we are giving to American banks, what hurdles need to be cleared so they can take what he estimated to be the equivalent of \$3 to \$5 million in mattress money and put it to work in the Poland economy.

Do we have somebody to address the question of the commercial bank branches opening—U.S. commercial bank branches opening in Poland, the impact, the hurdles?

Mr. BARREDA. All on a preliminary basis, Congressman, Secretary Mosbacher's trip was trying to get an on-the-spot feeling for what were the barriers to doing business in Poland.

We are now going to offer his findings on that and asking further questions. We will have to address that. Can one establish a firm, is it protected against nationalization? Does it have equal access to business? We need to address all of these questions. The Secretary of Commerce has taken a lead on the overall basis for U.S. business. We will be looking into the bank side ourselves.

Mr. BEREUTER. You are with the Treasury Department. Can you say whether there are any impediments—

Mr. BARREDA. We are looking on a business basis, will Citibank open a branch there and why doesn't it? What are the problems with the labor, the law? We are going to go through all those questions.

Mr. BEREUTER. If there are matters that are American impediments, what is your direction as to eliminating those impediments?

Mr. BARREDA. I am not aware of any.

Mr. BEREUTER. Do you know whether or not there are American impediments?

Mr. BARREDA. I don't believe so.

Mr. BEREUTER. Do you have any reaction to the Polish Government at this point, whether or not they are interested in reducing impediments to opening up commercial banking branches?

Mr. BARREDA. They are very much open to opening up branches. Sometimes banking is a little more sensitive, so we are going to explore that.

Mr. BROWN. Congressman, in the process of establishing the enterprise funds we have explored the interest in helping with the management of the funds. We have had contact with a number of banking institutions and management firms who have evidenced great interest in this activity. They might help with management of the funds as well as set up banking operations in Poland and Hungary.

Mr. BEREUTER. Credit unions?

Mr. BROWN. We have not had any reactions from the credit unions. The response has been from the banking community.

[The information follows:]

There are no U.S.G. restrictions on American banks establishing a physical presence in Poland. (U.S. banks have representative offices in Moscow, a joint venture in Budapest and a branch office in Bucharest).

The decision to open a branch in Poland is a private business decision based on profit expectations. U.S. banks have undoubtedly been deterred by the economic environment and uncertainties.

Mr. HAMILTON. Mr. Engel?

Mr. ENGEL. Thank you.

One of the things that happen when you ask questions after everybody else, they touch on some of the points you want to raise. I would like to reiterate some of the things my colleagues have said. While I think the aid program for Poland and Hungary is a good step in the right direction, I think that we ought to do more of it.

I would be in favor of allocating even larger resources. I think that, I know we have an historic opportunity here now. I don't want to blow it.

I am concerned about restructuring. I think the difference between Poland and Hungary and 1989 and the difference between Poland and Hungary earlier on is we have seen changes in Poland and Hungary that we couldn't have dreamed two or three years ago. I think their government ought to respond in kind, therefore, encourage other nations, East Bloc nations to make the same kind of moves Poland and Hungary have made.

I am also concerned with the issue of American ships transporting the food and other things. I am happy to hear no waiver will be asked for. I think that if we are going to provide aid to these countries, that our industries in America ought to benefit.

We ought not to be penny-wise and pound foolish. I would like to just add my voice to those saying that I think that food and other supplies ought to be done on American ships.

I personally think it ought to be even more than 75 percent.

Are there any plans to bring the resources at the trade and development program to bear on informing U.S. businesses of opportunities available in Eastern Europe as a result of all of the aid?

Mr. KAMMAN. Mr. Congressman, we are doing a trade and development program, a half million dollar project in Hungary already. It has been agreed upon and is being implemented. That was mentioned during the President's visit there. There is interest, I know, in Poland. It is not as quite as far along, but I think it would be appropriate to consider doing similar things in Poland.

Mr. ENGEL. Has any thought been given to setting up a quasi governmental agency such as Eastern European Development Foundation to coordinate the long-term efforts of both the public and private sectors as we assist the economic revitalization of Poland and Hungary and hopefully other East Bloc nations along the line? Any thoughts on that?

Mr. KAMMAN. Certainly there has been a lot of debate about what is the most efficient way to put together, as you say, the private and the public sector here. For the moment that is not something that we intended to do, although it is certainly the purpose of the President's mission that he has announced today to go to Eastern Europe, to Poland and possibly also a mission that would visit Hungary to look into the structural requirements of those economies. That would be a combination of public and private expertise.

Whether we need to set up a different institutional framework is something we want to leave open until we see the progress of the structural reforms.

Mr. ENGEL. Thank you, Mr. Chairman.

Mr. HAMILTON. Mr. Gilman?

Mr. GILMAN. I want to commend you, Mr. Chairman, for holding the hearing in a time fashion. We just received the bill. I am pleased to be co-sponsoring it. The Polish Government certainly needs prompt help. We are certainly at a turning point in history. It is up to our nation to help bolster this new democratic initiative.

#### POSSIBLE UTILIZATION OF TREASURY'S EXCHANGE STABILIZATION FUND

I would like to ask our distinguished panelists, there has been a great deal of discussion about the possible utilization of a loan from the Treasury's Exchange Stabilization Fund to help stabilize Poland as it tries to attract its inflationary problem. I know that Mr. Hamilton has raised that issue.

Can you tell us has serious consideration been given to that proposal? Is that possibility under review?

Does the Treasury Department have the authority to loan to Poland under this program?

Mr. BARREDA. Mr. Congressman, the administration has decided to support a Polish fund for stabilization. We think the appropriate way to do that is through appropriations by Congress. We think the Exchange Stabilization Fund's purpose and use are quite different. We have used the Fund for intervention in exchange markets and for very short-term loans usually bridged to a guaranteed payment in hard currency.

The proposal to provide exchange stabilization funds to Poland on a longer term basis would be a totally different use of the Fund.

That is much closer to foreign aid. Mr. Congressman, we think, therefore, it should be appropriated.

Mr. GILMAN. Let me pursue that for a moment with you.

Is assistance to this program going to be based on an IMF loan?

Mr. BARREDA. We said the use of this \$200 million that we are asking for and that we would try to leverage with the assistance of other countries would be conditional on an IMF program.

Mr. GILMAN. Why couldn't the stabilization money be used as a bridge until that IMF loan is completed if you say it has been used for that purpose in the past?

Mr. BARREDA. One thing we could consider once we are much closer to a Fund agreement is bridging to the actual disbursement of that. At this point it is too early to say there will be a Fund agreement.

Mr. GILMAN. Are you saying then there could be a stabilization short term loan to bridge this gap?

Mr. BARREDA. I am saying, Mr. Congressman, that if there is a Fund agreement, one of the things we could consider is whether it will be helpful for us and other countries to bridge a disbursement under that agreement.

Mr. GILMAN. And the stabilization monies could be used for that purpose?

Mr. BARREDA. If all the conditions are met. That is quite different than a long term loan to them for exchange stabilization.

#### AGRICULTURE PROGRAM

Mr. GILMAN. With regard to the agricultural aspects of this program, what role do you think the agricultural community should be playing? I note that Mr. Borlang the author of the Green Revolution Program had done an assessment. He talked about a Farmer-to-Farmer Program, and the need for technological and expertise assistance in sending some of our farmers over there to help them revolutionize their agricultural economy.

Can you tell me what you have in mind with regard to the agricultural program?

Mr. GOLDTHWAIT. We are looking at a variety of options, including the Farmer-to-Farmer Program at present. Certainly the transfer of technology and know-how to Polish farmers is very important, along with providing them with the necessary inputs to develop their own productivity.

In addition, a good bit of agribusiness know-how is necessary in the area of marketing and food processing and feed processing. Those are all among the things we are focusing on.

Mr. GILMAN. Are these provisions a part of the executive package?

Mr. GOLDTHWAIT. Specifically, as of this time, no. But the local proceeds that will result from the sale of many of the commodities there will be helpful in carrying out some activities of this sort.

Then again, it is possible that the enterprise fund may support some activities of this sort.

Mr. BEREUTER. Would the gentleman yield?

Mr. GILMAN. I would be pleased to yield.

Mr. BEREUTER. I would cite to the gentleman—I would like to have it confirmed—that the Farmer-to-Farmer Program, which he helped me get started here, provides authorization for Farmer-to-Farmer Program to be extended to Poland. There is no impediment to it being extended at this moment. It is a matter of your discretion, sir. Isn't that correct?

Mr. GOLDTHWAIT. That is correct.

Mr. GILMAN. For the gentleman's information, I understand that Senator Leahy and Senator Kerry are already circulating a letter to the President and the Senate asking the Farmer-to-Farmer Program be utilized. Are you familiar with that initiative?

Mr. BROWN. Yes, we are. A.I.D. has received a copy of the Senators' letter.

Mr. GILMAN. Our staff assistant informs me we have included the Farmer-to-Farmer Programs in the measure we are circulating in the House. We would hope you would be supportive of that proposal.

Thank you, Mr. Chairman.

Mr. HAMILTON. The bells have just rung for a vote, so the subcommittees will recess for 15 or 20 minutes while we vote. Then we will return to questions.

[A short recess was taken.]

#### ADMINISTRATION'S REQUEST FOR AID TO POLAND

Mr. HAMILTON. The subcommittees will resume their sitting.

What is the total amount of bilateral aid that the President is requesting for Poland?

Mr. KAMMAN. I will try to answer that, Mr. Chairman.

In this current request we are asking for \$100 million for Poland and \$25 million for Hungary to fund the enterprise funds. There is also a request to fund the initiatives announced by the President on the environment. Part of those funds are absorbed in the Energy Department's existing funding authority. Part are for—

Mr. HAMILTON. Start over. What is the total authorization figure the President is seeking for Polish aid for '90?

Doesn't anybody add those figures up before you come up here?

Mr. KAMMAN. One of the problems, Mr. Chairman, is that we have tried to put them together for the entire package that we submitted. For Poland it is \$119 in the existing bill pending before you, which would be added to the new request of \$200 million by the President just announced two hours ago. That would be \$319.

Mr. HAMILTON. Your total authorization request for the fiscal year 1990 is \$319 million. Is that correct?

Mr. KAMMAN. That is correct, but it is not comparable to the amount contained in the draft House bill.

Mr. HAMILTON. Just forget the draft House bill. I am talking about the Administration request. I know what is in the House bill. I want to know what is in your bill, your bills. I want to know the total amount. Your testimony is \$319 million. Is that correct?

Mr. KAMMAN. That is correct.

Mr. HAMILTON. What is the outlay?

Mr. KAMMAN. The outlay would be for '90, again, for Poland—Mr. Chairman, I would like to submit that for the record. The prob-

lem is in how you break this down. Two hundred million dollars would be all——

Mr. HAMILTON. Do I understand that you are making a request to the Congress to pass a bill and you don't know how much money is involved in it?

Mr. KAMMAN. I can certainly speak to the authorization amount, which was \$119 and which has now been supplemented by \$200 million, making \$319.

Mr. HAMILTON. The \$319 authorization includes everything, is that right?

Mr. KAMMAN. Those things that are not already funded.

Mr. HAMILTON. All right. That is a total figure that I can rely on, is that correct?

Mr. KAMMAN. Yes sir.

Mr. HAMILTON. All right. The outlay figure, you don't know?

Mr. KAMMAN. I have to develop the outlay figure. That is why I would prefer to submit it for the record.

Mr. HAMILTON. Your \$319 does not include any food aid, is that correct?

Mr. KAMMAN. That is right. That is being funded out of existing authority.

Mr. HAMILTON. Okay. Now, of course, we want that figure as promptly as possible. What I would like you to do is send up to me this afternoon or tomorrow morning the figures here for your bill. That is the totals, of course, with regard to authorization and outlay. But also how you got the subtotals so I know how you reached that \$319 million, as well as the subtotals for the outlays, too.

[The information follows]

U.S. ASSISTANCE TO POLANDALREADY PLANNED

- o Food aid: \$108.4 million for FY 89 and FY 90.
- o September package: \$119 million of which
  - \$100 million is for the enterprise fund
  - \$ 15 million is for the environmental program\*
  - \$ 4 million is for labor initiative

\*\$10 million is from previous budgetary authorities
- o October package: \$200 million

ESTIMATED BUDGET OUTLAYS FOR FY-90

- o \$30 million for September package (assuming 100% of appropriation)

Of which:

  - \$10 million for enterprise fund
  - \$4 million for labor
  - \$11 million for environment
- o \$200 million for October package (assuming compliance with IMF and expert mission conditionality.)

TOTAL U.S. COMMITMENT

\$427.4 million

Of which \$305 million (less food aid and some environmental) requires authorization.



U.S. ASSISTANCE TO POLANDMEDICAL ASSISTANCE (180-003) FY 85 - \$4,000,000 ESF

- o This project, managed by Project Hope in collaboration with the Polish Government and the Catholic Church, provides basic and essential medical supplies, pharmaceuticals, equipment and training to 19 hospitals in Poland.

SOLIDARITY (180-004) FY 87 - \$1,000,000 ESF  
 FY 88 - \$1,000,000 ESF  
 FY 89 - \$2,000,000 ESF

- o \$4 million of ESF has been channeled to Solidarity through National Endowment for Democracy (NED), who subgranted \$1 million in 1987 and 1989, to the International Rescue Committee to provide medical equipment to Solidarity's Social Foundation. In FYs 88 and 89, NED provided \$1 million each year to the AFL-CIO Free Trade Union Institute on behalf of Solidarity for translation, publication and distribution of information on union rights in Poland.

ASSISTANCE TO PRIVATE FARMERS (180-0005) FY 88 - \$5,775,000 DA  
 Planned - FY 90 - \$4,225,000 DA

- o Up to \$10 million in development assistance is planned as grant to Catholic Relief Service who works in collaboration with the Church Agricultural Committee (CAC), to purchase agricultural goods for sale to private Polish farmers. The local currency generated from the sales is used by the CAC to co-finance rural water systems.

MEDICAL SUPPLIES AND HOSPITAL EQUIPMENT (181-0006)

FY 89 - \$1,000,000 ESF

- o Through a grant to the Polish-American Congress Charitable Foundation (PACCP), medical supplies and equipment will be supplied to rural hospitals and clinics and the American Childrens Hospital in Krakow.

Democratic Transition (181-0000) FY 89 - \$330,000 DA

- o A grant to National Endowment for Democracy (NED) will be used to support the process of democratic transition in Poland. Activities will include support for independent media and publishing activities, a conference in Poland on the role of a democratic legislature in developing national economic policy, and a series of conferences of eminent economists on Poland's most pressing economic problems.

Enterprise Fund (181-0000) Planned - FY 90 - \$10,000,000 ESF  
 Planned - FY 91 - \$45,000,000 ESF  
 Planned - FY 92 - \$45,000,000 ESF

- o The planned \$100 million to be provided over three years (FY 90 - 92) will be used to promote the development of the private sector in Poland. The means to accomplish this may include support to small business in Poland, facilitating joint ventures with U.S. business, and promotion of policy and practices conducive to private sector development including privatization of public enterprises. Funds may be provided through grants, loans, equity investments and activities such as feasibility studies, training and other measures. The program will be directed by a private board of directors who will set policy and provide overall guidance on the objectives and procedures of the fund. Day to day management will be provided by a professional manager hired by and responsible to the board.

FOOD AID (PL 480 Section 416) FY 88/89 - 16,000 MT - \$8,400,000  
 Planned FY 90 - 8,000 MT - (?)  
 Planned FY 91 - 8,000 MT - (?)  
 Planned FY 92 - 8,000 MT - (?)

- o 8,000 metric tons of PL 480 Section 416 surplus agricultural products will be provided each year between FY 88-92. During FY 88/89 11,500 MT of sorghum and 4,500 MT of butter were shipped. Surplus U.S. agricultural products are to be sold, with the local currency proceeds used to improve the quality of life of the Polish people. Priority is to be given to activities which benefit handicapped or orphaned children, the Jewish Research Center of the Jagiellonian University of Krakow, and to support private and independent sectors of the Polish economy, especially independent farming and agriculture.

FOOD AID (PL 480 Section 416)\* FY 90 - (?) MT - \$100 Million

- o In FY 90 it is planned to provide Poland with PL 480 section 416 food commodities to the value of \$ 100 million. Included in this amount is the 8,000 tons programmed above. This additional food will enable Poland to meet critical needs while the economy is reacting to elimination of subsidies and liberalization of agricultural product marketing. The local currencies generated through sale of the donated commodities will be programmed to support expansion of the private sector and development in agriculture related areas.

\* This will include other PL 480 sections.

ASSISTANCE TO POLAND  
(\$ 000)

	<u>FY 1982</u>	<u>FY 1983</u>	<u>FY 1984</u>	<u>FY 1985</u>	<u>FY 1986</u>	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>	<u>FY 1990</u>
<u>Economic Support Funds</u>									
1. Medical equipment & supplies (Project Hope)	5,000								
2. Zablocki Wing									
-- Construction, administered by FVA/ASHA				3,000					
-- Zloty costs*				(15,000)			(5,000)		
-- Equipment & supplies (Project Hope)				4,000					
3. American Children's Hospital				3,000					
4. Solidarity/National Endowment for Democracy (NED)									
-- Social Fund						1,000		1,000	
-- Free Trade Union Institution							1,000	1,000	
5. Private Voluntary Organizations								1,000	
6. Enterprise Fund									10,000
<u>Development Assistance</u>									
1. DA/ARDN earmarked by Congress; \$10 million to be used for Polish private farmers							5,775		4,225
2. National Endowment For Democracy (NED)									
Human Rights								330	
Total ESP & DA	5,000	-	-	10,000	-	1,000	6,775	3,330	14,225

\*Local Currency not included in totals

ANE/EE: Cadanczyk:TMahoney:lsl:8/30/89:WD 2971N:INF/LEG

ASSISTANCE TO POLAND  
(\$ Millions)  
(MT 000)

	<u>FY 1982</u>		<u>FY 1983</u>		<u>FY 1984</u>		<u>FY 1985</u>		<u>FY 1986</u>		<u>FY 1987</u>		<u>FY 1988</u>		<u>FY 1989</u>		<u>FY 1990</u>	
<u>Food Assistance</u>	MT	<sup>1/</sup> \$	MT	\$	MT	\$	MT	\$	MT	\$	MT	\$	MT	\$	MT	\$	MT	\$
Title II	43.0	\$15.5	112.0	\$29.0	79.0	\$28.3	40.0	\$12.7	4.9	\$3.4	4.9	\$2.1	—	—	—	—	—	—
Section 416	—	—	2.6	\$ 4.0	54.0	\$70.0	19.0	\$19.0	11.5	\$12.5	—	—	—	<sup>2/</sup> —	16.0	<sup>3/</sup> \$8.4	(?)	<sup>4/</sup> \$100.0
<u>Total PL 480</u>		<u>\$15.5</u>		<u>\$33.0</u>		<u>\$98.3</u>		<u>\$31.7</u>		<u>\$15.9</u>		<u>\$2.1</u>		<u>—</u>		<u>\$8.4</u>		<u>\$100.0</u>
<u>Total DA and ESP</u>		<u>\$ 5.0</u>		<u>—</u>		<u>—</u>		<u>\$10.0</u>		<u>—</u>		<u>\$1.0</u>		<u>\$6.775</u>		<u>\$3.330</u>		<u>\$14.225</u>
<u>Grand Total</u>		<u>\$20.5</u>		<u>\$33.0</u>		<u>\$98.3</u>		<u>\$41.7</u>		<u>\$15.9</u>		<u>\$3.1</u>		<u>\$6.775</u>		<u>\$11.730</u>		<u>\$114.225</u>

Totals  
1982-1990

Title II: \$ 91,000  
Section 416: 163,900  
Total PL 480 254,900  
ESP/DA: 40,330  
Total: \$295,330

1. \$ Amounts do not include shipping costs
2. Trade Bill Legislation was finalized too late in FY 88 to permit program design and implementation, therefore FY88/89 is combined in FY89.
3. FY 1989 cost approximate. FY 1990 tonnage not yet established.
4. FY 1990 PL 480 will be a combination of sections including 416.

Mr. HAMILTON. When do you want the \$200 million by?

Mr. KAMMAN. Since the proposal has just been announced, and the request to the Congress has not been formally put forward, I can only say that the need to provide it to Poland is anticipated very early in '90. The authority to have it, I think, we will be requesting much sooner than that.

Mr. HAMILTON. Is the only aid that will flow to Poland prior to calendar year '90 under your proposal food aid?

Mr. KAMMAN. It is primarily food aid between now and then.

Mr. HAMILTON. What else is it?

Mr. KAMMAN. However, the President intends to send a commission to examine the needs of Poland. When they return from Poland, and they report there are other gaps—

Mr. HAMILTON. We will get a fourth package? This is the third package sent up here on Polish aid. If the commission goes over and makes recommendations, we will get a fourth package?

Mr. KAMMAN. It is possible we will need further. It is also possible that we might arrange to handle it between the time they need it and the time they get their IMF funds.

#### CONDITIONS FOR U.S. AID FLOW

Mr. HAMILTON. Under your proposal at this time there will be no aid that will flow to Poland prior to calendar year '90 other than food aid, is that correct?

Mr. KAMMAN. Aid out of budgetary outlay, that is correct.

Mr. HAMILTON. Okay. Now, is an IMF agreement with Poland essential before the \$200 million flows?

Mr. KAMMAN. From our perspective, it is essential to know there is a reform program in operation that we can support through that \$200 million.

Mr. HAMILTON. What does that mean? Does that mean an agreement has been struck between Poland and the IMF before the \$200 million will flow?

Mr. KAMMAN. That is correct.

Mr. HAMILTON. Okay. So the IMF agreement then is a pre-condition to any U.S. aid flowing of this \$200 million, is that correct?

Mr. KAMMAN. It is the essential condition for the \$200 million.

Mr. HAMILTON. It is the essential condition. Now, what is the status of the discussions between Poland and the IMF now?

Mr. KAMMAN. The Poles presented to the IMF their basic reform concept when the Polish Finance Minister was here last week. IMF has a high level delegation either in Poland or about to arrive there. When it returns, they expect to enter into a negotiation, which they hope will produce results within two or three months.

Mr. HAMILTON. You then, under your current estimate, would think that an agreement between Poland and the IMF would be completed by the end of the year?

Mr. KAMMAN. That is sort of the objective, yes.

Mr. HAMILTON. This billion dollars, of which the \$200 million is the U.S. part, have we sat down with our allies now and agreed upon \$1 billion?

Mr. KAMMAN. No. They received the same request from the Poles that we received a week ago. They are conscious of the Polish

desire to muster \$1 billion. We are urging our allies to consider it sympathetically.

Mr. HAMILTON. But there is no agreement?

Mr. KAMMAN. They have not signed up for it.

Mr. HAMILTON. The allies have not committed anything to this point with regard to this stabilization fund?

Mr. KAMMAN. Not with regard to the stabilization fund.

Mr. HAMILTON. We are asking they hit a billion dollars and so is Poland, is that right?

Mr. KAMMAN. That is correct.

Mr. HAMILTON. What is this billion dollars going to be used for?

Mr. KAMMAN. The billion is largely, from the Polish perspective, a reserve of hard currency that they can draw upon for essential imports during a period that they are going through structural adjustment in their economy.

On the other hand, we will be guided very much by the views of the IMF and by the economic commission that the President will send to Poland as to where that money should actually be applied.

Mr. HAMILTON. How much are we going to request the IMF to make available to Poland?

Mr. KAMMAN. It is anticipated Poland would draw up to 90 percent of its quota.

Mr. BARREDA. Mr. Chairman, if I could add a bit to that? The process of entering into a program with the IMF has some aspects of a negotiation. IMF gives policy advice and it also has some funds available. Often it feels that the stronger policy measures are in order. One of the ways it uses to encourage that is to provide more funds. So we do not now have a specific target in mind for the IMF. We want a strong program that has sufficient financing.

Mr. HAMILTON. We have not resolved what we are going to support. For example 50 percent of Poland's quota, or 90 percent?

Mr. BARREDA. No sir.

Mr. HAMILTON. When will we make that determination?

Mr. BARREDA. We will pass a view on that when it is presented to us.

Mr. HAMILTON. Under what circumstances would you support a, say, 90 percent of the quota loan?

Mr. BARREDA. It depends on what the Fund and the Polish Government agree to and what is proper. We will then evaluate what they come back with. I cannot give you what the hypothetical would be, Mr. Chairman.

Mr. HAMILTON. We are prepared to support a strong, as you put it, or generous loan from the IMF to Poland?

Mr. BARREDA. We are prepared to support a strong program backed up by appropriate IMF resources.

Mr. HAMILTON. Have we already stated that to the IMF?

Mr. BARREDA. Yes.

Mr. HAMILTON. They understand that. What do you think the IMF's reaction is at this point?

Mr. BARREDA. The IMF is doing all it can. They have been ready to go to Poland for quite a while now. They are planning to send a mission next week. They are moving with great speed.

Mr. HAMILTON. If you would say that an agreement with the IMF is going to be struck, how far along are they on that agreement? Fifty percent along, 80 percent along, 90 percent?

Mr. BARREDA. No sir, they are starting—

Mr. HAMILTON. They have started?

Mr. BARREDA. They are starting, and they are sending a mission next week. They have had some pre-discussions, but nothing formal. The government has not been in power that long, Mr. Chairman.

Mr. HAMILTON. I wanted to ask you further about this—I have got a lot of questions actually—about this exchange stabilization fund.

Mr. SOLARZ. Mr. Chairman, would you yield?

Mr. HAMILTON. Mr. Solarz.

Mr. SOLARZ. I presume we have some influence with the IMF?

Mr. BARREDA. I hope so.

Mr. SOLARZ. Right. In the past, when the IMF has entered into negotiations with a country, have we ever attempted to come up with a program? Have we, in advance of the IMF reaching an agreement, said to the IMF, "we hope that you will reach an agreement in which you provide the country specified levels of funding, assuming they agree to the conditions which you set forth"?

Mr. BARREDA. I am not aware of that.

Mr. SOLARZ. Could we do that?

Mr. BARREDA. The IMF is taking part in negotiations. They have money and policy advice to offer. They think certain policy measures might be necessary in Poland. The funds they have to offer are part of those negotiations. For us to go in and say, "you should give all the money you can make available to them," of course, would handicap them in this negotiation.

Mr. SOLARZ. If you will yield for one final question, Mr. Chairman.

Why does it handicap them if we say to them, "look, we understand you have got to get an agreement with Poland in which they undertake to initiate a whole series of reforms. If you can get that commitment to the reforms that are necessary, we believe under those circumstances you should be prepared to give them 90 percent of their drawing rights," which in this case is \$700 million.

I can't see how that weakens their negotiating position at all, since it makes funds contingent on Poland's willingness to agree to the reforms the IMF will be demanding.

Mr. BARREDA. I understand that. The precise amount—the other question also is the length of the program. There are a lot of variables involved in this negotiation, Congressman. We don't want to specify one because of all the others. The time period is flexible, the policy measures are flexible, financial support, timing, what are the needs of Poland at the particular time.

It is hard for us to say at this point what our views will be when the Fund comes back to us and other members for approval.

Mr. SOLARZ. Thank you.

Mr. HAMILTON. I want to make sure I understand your testimony on this point. Your testimony is no money is needed by Poland before the calendar year '90, is that correct?

Mr. KAMMAN. What we have said is that we don't know what the needs are, that we would make available in '90 after an IMF agreement, \$200 million. If there are needs before then—

Mr. HAMILTON. Look, I understand things can change. But your testimony is that Poland needs no money prior to calendar '90?

Mr. KAMMAN. Well, they need, for example, private investment under OPIC. If we have the authority, we already have the available money. U.S. budgetary outlays we don't plan before '90 at this point.

Mr. HAMILTON. There will be no U.S. budgetary outlays that are needed prior to calendar '90? That is your testimony, is that correct?

Mr. KAMMAN. That is correct.

Mr. HAMILTON. I am talking about calendar year here.

You are aware, of course, that the Polish program that was presented to you and to members of Congress last week by the Polish Finance Minister called for financial assistance from Western Governments prior to '90, are you not?

Mr. KAMMAN. That is correct.

Mr. HAMILTON. How much did they request?

Mr. KAMMAN. \$490 million.

Mr. HAMILTON. You said no. Why did you say no?

Mr. KAMMAN. Well, we have not said no.

Mr. HAMILTON. Well, you said now with respect to the program that you have so far come forward with.

Mr. KAMMAN. That is correct.

Mr. HAMILTON. That is not exactly a ringing yes.

Mr. KAMMAN. We have not seen what in Poland that they would spend the \$490 million on.

Mr. HAMILTON. You have now sent three programs to the United States Congress and you have not yet seen any need for any cash going to Poland from the United States Government. Right?

Mr. KAMMAN. Not yet.

Mr. HAMILTON. Not yet, okay. They asked for \$490 million, right?

Mr. KAMMAN. That is correct.

Mr. HAMILTON. And you turned it down. Why?

Mr. KAMMAN. They have not shown how it would be spent. There are other multilateral sources as well, from which they can draw.

Mr. HAMILTON. Which ones? What other multilateral sources can they draw from?

Mr. KAMMAN. Other countries.

Mr. HAMILTON. Which other countries?

Mr. KAMMAN. The countries assisting Poland and the multilateral effort under the G-7 grouping.

Mr. HAMILTON. Give me the names of countries prepared to give cash assistance to Poland before calendar '90.

Mr. KAMMAN. None of the other countries has made the commitment for the period between now and '90.

Mr. HAMILTON. Why did you say the other countries were prepared to do it?

Mr. KAMMAN. I said it is a source the Poles might expect to get this assistance.

Mr. HAMILTON. There isn't any money there yet?



Mr. KAMMAN. Not yet.

#### NEED FOR AN IMF AGREEMENT

Mr. HAMILTON. Let me ask questions about the Exchange Stabilization Fund. I am not sure I understand correctly the testimony early on. You seem to reject that approach, at least in part because you said it was used only for short term loans. Is that correct?

Mr. BARREDA. That is right.

Mr. HAMILTON. By which you meant what?

Mr. BARREDA. We use our Exchange Stabilization Fund for activities in the foreign exchange markets where we are exchanging dollars for yen or deutsche marks, or vice versa. We also do it for short term bridging. In that case, we make available the dollars in exchange for an assured repayment in hard currency, and we lock in the exchange rate.

Mr. HAMILTON. Short term in that context means what?

Mr. BARREDA. Less than six months, unless, as required by the statute, approved by the President to be longer.

Mr. HAMILTON. You have made longer loans than six months, have you not?

Mr. BARREDA. I am not aware of any. I have been discussing with your staff a Mexico loan and I would like to look into that.

Mr. HAMILTON. Six hundred million dollars for 12 months to Mexico in '82. Are you aware of that?

Mr. BARREDA. I wasn't. I am going to look into it and get back to you.

[The information follows:]

The Exchange Stabilization Fund extended a \$600 million facility on August 26, 1982, with a final maturity date of August 23, 1983. This facility was part of a multi-lateral facility, providing bridge financing to an IMF program, in which the Federal Reserve System and the Bank for International Settlements also participated. A series of drawings was made, beginning in September 1982 and ending in February 1983. A series of repayments began in May 1983, and final repayment occurred on August 23, 1983.

In accordance with the statutory requirement, President Reagan notified the Congress of the unique or emergency circumstances that required the loan be for more than six months. A copy of that notification to the Speaker of the House (also provided to the President of the Senate) is attached.

Further details are available in the documents submitted to Congress under the Case Act and in the periodic reports on Treasury and Federal Reserve Foreign Exchange Operations which are provided to Congress.

THE WHITE HOUSE,  
Washington, September 8, 1982.

Hon. THOMAS P. O'NEILL, Jr.,  
Speaker of the House of Representatives,  
Washington, DC.

DEAR MR. SPEAKER: In accordance with the provisions of Section 10 of the Gold Reserve Act of 1934, as amended (31 U.S.C. 822a), I determined on August 24, 1982, that the United States, through the Exchange Stabilization Fund of the Department of the Treasury ("ESF"), should stand ready to provide to the Bank of Mexico ("Bank") credit with a possible maturity of longer than six months but not to exceed one year.

According to the terms of the proposed agreement with the Bank, the ESF will provide credit facilities to the Bank in an amount of \$600 million for a term of three months, with a possibility of three three-month renewals, to expire no later than August 23, 1983. The Bank's obligations under the agreement will be unconditionally guaranteed by the Government of Mexico.

The ESF agreement is part of a multilateral effort involving other major countries, acting through the Bank for International Settlements ("BIS"), the ESF and the Federal Reserve System to provide short-term facilities amounting to \$1.85 billion to the Bank. Under the agreement between the Bank and the BIS, the ESF and the Federal Reserve System will share with the BIS in the proceeds of drawings by Mexico from the International Monetary Fund (IMF) and in certain other arrangements to assure repayment of this multilateral financing. The Mexican Government has undertaken to arrange a major program of economic adjustment in cooperation with the IMF, which will serve as the basis for IMF balance of payments financing for Mexico during the next three years. The multilateral arrangement, of which the ESF agreement is an integral part, is designed to provide immediate support for Mexico's external position while the IMF arrangement is being negotiated and other sources of financing are being arranged by Mexico.

Mexico at present faces extreme balance of payments problems of a magnitude and character which, if not addressed through the measures outlined above, could lead to substantial disruption of international money, financial, and exchange markets. The provision of financing by the ESF is a key component of a multilateral effort, centered on an economic adjustment program to be agreed between the IMF and Mexico, to strengthen Mexico's economic and financial position. Because of Mexico's extreme financial difficulties and the time that may be required before Mexico's economic adjustment measures begin to take effect, it may take more than six months before Mexico is able fully to repay credit advanced by the ESF. The mobilization of resources by other participants in this multilateral financing arrangement effort also recognizes this possibility.

I have therefore determined that these facts present unique and exigent circumstances and that the ESF must be prepared to extend credit to Mexico for a term greater than six months but not to exceed one year.

Sincerely,

RONALD REAGAN.

Mr. HAMILTON. You could use this money as a bridging loan to Poland, could you not? You could extend the loan to Poland under the Exchange Stabilization Fund? When the IMF Fund kicks in, it could take over the loan?

Mr. BARREDA. If there is an assurance of an IMF agreement as a short term, we would consider that. We want to be assured of repayment and hard currency.

Mr. SOLARZ. Would the gentleman yield?

Mr. HAMILTON. Mr. Solarz.

Mr. SOLARZ. Thank you.

On a scale of zero to ten, with ten being a certainty there will be an IMF agreement, and zero being a certainty that there won't be, where would you put the likelihood of an agreement?

Mr. BARREDA. I can't answer that.

Mr. SOLARZ. Mr. Kamman, do you want to try?

Mr. KAMMAN. Those loans are essentially a Treasury decision.

Mr. SOLARZ. I am asking you for a judgment about the likelihood of an IMF agreement with Poland.

Mr. KAMMAN. I am sorry, I thought you indicated the likelihood that we would extend the loan.

Mr. SOLARZ. No, the likelihood there will be an IMF agreement.

Mr. KAMMAN. Since they are at an early stage, it is hard to make that judgment. I think it is highly likely—

Mr. SOLARZ. Would you say eight or nine on a scale of one to ten?

Mr. KAMMAN. I would say highly likely.

Mr. SOLARZ. If it is highly likely there will be an IMF loan and if the Poles also know their ability to get the \$1 billion stabilization loan depends on their getting an IMF agreement, would the Treasury object to using the Exchange Stabilization Fund for a loan

right now to be repaid by Poland when it gets its IMF agreement so that they get these funds in the short term?

Mr. BARREDA. I think Treasury would object because there is uncertainty.

Mr. SOLARZ. Because you don't have an absolute guarantee of an IMF agreement?

Mr. BARREDA. That is right, and the time frame is not known.

Mr. SOLARZ. How long does it usually take to obtain an agreement, if you do obtain one? How long do these negotiations generally take?

Mr. BARREDA. They can vary widely.

Mr. SOLARZ. What has been the range?

Mr. BARREDA. I would say six months is not rare. I understand both sides in this negotiation want to do it much more rapidly. The negotiations can drag on.

Mr. SOLARZ. All right. Finally, is there any other conceivable source of revenue that Poland might be able to pledge as a means of guaranteeing repayment of the loan in the event they don't have an IMF loan agreement?

Mr. BARREDA. I am not aware of any now. We can look.

Mr. SOLARZ. If they could come up with it, would it satisfy Treasury's concerns?

Mr. BARREDA. We have to look at the precise situation.

Mr. SOLARZ. If you know that they would guarantee repayment either from the IMF or some other source, would that make it possible for you to use the Exchange Stabilization Fund before the end of the calendar year?

Mr. BARREDA. Congressman, I know it looks like I am trying to avoid the question, but it becomes very technical whether in fact you can get your hands on those assets. We would have to look at that.

[The information follows:]

Treasury requires an assured source of repayment in order to minimize exposing the ESF to a loss which would impact U.S. taxpayers. Judgments are made on a case-by-case basis. A prospective disbursement under an economic adjustment program supported by the International Monetary Fund and prospective disbursements from the World Bank are preferred sources.

Mr. SOLARZ. Thank you.

Mr. HAMILTON. Are you willing to look at it?

Mr. BARREDA. I said we are willing to consider a short term bridge loan to Poland with assured repayment. I use the word "consider" because we do use bridging. We are not saying we will not do it for Poland. It depends if the conditions are met.

[The information follows:]

Treasury is prepared to consider positively a bridge loan to Poland but could not make a commitment except in conjunction with an agreement between Poland and management of the IMF and identification of assured sources of repayment. In addition to funds available under an IMF program, disbursements from the World Bank could be considered.

Mr. HAMILTON. My impression is you have got a good bit of flexibility with the Exchange Stabilization Fund and a lot more than you initially indicated in your testimony. Now, you have made in the last 15 years, you have used this fund for loans to Mexico, Turkey, Argentina, and Portugal. And you have done it for those

countries when they faced an economic crisis and balance of payments crisis.

That is exactly what Poland has today. They have got a balance of payments crisis. Your estimate is they don't need any money until the end of the year. That is not the information we have here. That is not the information the Polish Finance Minister gave us last week. It is not the information the Polish Finance Minister gave you last week.

But you have made a judgment—I don't know where you get the information—you have made the judgment that Poland doesn't need any money in calendar year 1989. I would like to know how you figured that out on the basis of the information that has been reported to you, but you have made the judgment.

I just don't understand the judgment. I think Poland needs a large infusion of money right away, very quickly, and cannot wait, frankly, for the negotiation of an IMF agreement and cannot wait really for the legislative process even to move forward, and to make this money available, which could be a matter of several weeks even if we begin markup of the bill next week, which I think we will.

And earlier you indicated to us you are not going to have your proposal up here until the end of the month, I think.

Mr. KAMMAN. I said by the end of the month, but I hope sooner. I would hope sooner, but I said by the end of the month.

Mr. HAMILTON. Mr. Solarz?

Mr. SOLARZ. Thank you, Mr. Chairman.

I want to compliment you for your statement because you purvey exactly the right sense of urgency. I think we all need to feel it. Do you know how many times this Exchange Stabilization Fund has been utilized to provide loans to other countries.

Mr. BARREDA. I think the Chairman just said six times.

[The information follows:]

Attached is a list of ESF Financing Commitments made from August 1982 through October 6, 1989.

U.S. Treasury Bridge Loans Since 1982

<u>COUNTRY</u>	<u>DATE</u>	<u>AMOUNT</u>
Bolivia	September 15, 1989	\$100 million
Mexico	September 14, 1989	425 million
Bolivia	July 11, 1989	100 million
Venezuela	March 10, 1989	450 million
Argentina	October 19, 1988	265 million
Mexico	July 19, 1988	300 million <sup>1/</sup>
Brazil	July 19, 1988	250 million
Yugoslavia	June 10, 1988	50 million
Argentina	February 23, 1988	550 million
Ecuador	December 3, 1987	31 million
Argentina	October 30, 1987	200 million
Argentina	March 5, 1987	225 million
Nigeria	October 21, 1986	37 million
Bolivia	September 16, 1986	100 million
Mexico	August 26, 1986	273 million
Ecuador	May 14, 1986	150 million
Argentina	June 18, 1985	150 million
Philippines	October 12, 1984	45 million
Argentina	December 6, 1984	500 million
Argentina	March 30, 1984	300 million
Jamaica	December 23, 1983	50 million
Yugoslavia	April 1983	75 million <sup>2/</sup>
Brazil	February 28, 1983	400 million
Brazil	December 24, 1982	500 million <sup>2/</sup>
Brazil	December 10, 1982	250 million
Brazil	November 29, 1982	450 million
Brazil	November 17, 1982	280 million
Brazil	October 27, 1982	500 million
Mexico	August 26, 1982	600 million
Mexico	August 15, 1982	1,000 million
<b>TOTAL</b>		<b>8,606 million</b>

<sup>1/</sup> Standing swap agreement with Mexico.

<sup>2/</sup> Guarantee of BIS short-term credit -- not called upon.

Mr. SOLARZ. In every one of those six, there was an IMF agreement signed before we provided the loans.

Mr. BARREDA. It is my understanding that the Treasury has been assured of repayment in hard currency. That has taken effect. Some of the loans has not been drawn down.

Mr. SOLARZ. That was not the question. In each of those instances did the recipient country have an IMF agreement signed before the loan was made?

Mr. BARREDA. No, sir.

Mr. SOLARZ. In which instances were the loans made when the IMF agreement had not been signed prior to the making of the loan?

Mr. BARREDA. I don't have that at my fingertips. I can develop it. What I am stressing is——

Mr. SOLARZ. No——

Mr. BARREDA. Congressman, if I could finish. This is a fund that the Treasury runs, as you pointed out. It has not been considered an appropriation because we have always been assured of repayment. We have, in fact, been very careful of how we have used it. I think it has been consistent with the congressional intent as indicated in the 1987 Act.

Mr. SOLARZ. That is fine, but if you want to take the position with respect to Poland that you can only use the Fund if you are assured of repayment and you say you have to have an IMF agreement to be assured—which means that the IMF will be giving Poland money which Poland can use to repay the loan—then you have to explain to us why previous loans have been made through the Exchange Stabilization Fund to countries that did not have an agreement with the IMF prior to the time of the loan.

The subcommittee chairman has just told us we gave a \$3.5 billion stabilization loan to Mexico last year prior to an agreement between Mexico and the IMF. In that situation, what absolute guarantee of repayment did you have?

Mr. BARREDA. I will be happy to come up and show you the assurance of repayment we had.<sup>1</sup>

Mr. SOLARZ. We need to know the details, because the next question is, whatever that assurance was, why can't the same kind of assurance be utilized in the Polish case? Can you give us an answer?

Mr. BARREDA. We will come up and discuss that with you. I would prefer to do it with you.

Mr. SOLARZ. It would obviously be best to do this with us all being on board, just as the \$1 billion stabilization loan to Poland would be best done multilaterally rather than unilaterally. But let's assume we cannot reach an agreement, that for whatever reasons you don't want to use the Exchange Stabilization Fund and we think it should be used. Do we have the authority to legally mandate the use of those funds?

Mr. BARREDA. I cannot touch that one.

<sup>1</sup>See page 163.

Mr. SOLARZ. Why not? Is it yes or no? I am not saying whether we should or should not take such action. But do we have the legal authority?

Mr. BARREDA. I don't know if you do or not.

Mr. SOLARZ. Do you have anyone with you who can answer that question?

Mr. BARREDA. No, I don't.

Mr. SOLARZ. Can you get someone to answer the question?

Mr. BARREDA. We can get the Attorney General to make a ruling, if you want.

Mr. SOLARZ. Why wouldn't we be entitled?

Mr. BARREDA. I didn't say that. I think we should check.

[The information follows:]

The Gold Reserve Act of 1934, as amended, provides that:

"Consistent with the obligations of the Government in the International Monetary Fund on orderly exchange arrangements and a stable system of exchange rates, the Secretary [of the Treasury] or an agency designated by the Secretary, with the approval of the President, may deal in gold, foreign exchange, and other instruments of credit and securities the Secretary considers necessary." (31 U.S.C. 5302(b))

Mandating use of the ESF for the purpose of financial assistance to Poland would entail removal of the discretion afforded the Secretary and of the requirement for consistency with U.S. obligations in the IMF. These obligations are contained chiefly in Article IV of the Articles of Agreement, which was amended in 1978 to reflect the conclusion that stability of exchange rates rests on achievement of orderly underlying economic and financial conditions and which provided the IMF with increased responsibilities for surveillance of member's economic and exchange rate policies. Accordingly, use of the ESF for a "bridge loan" is usually conditioned on the existence of an economic adjustment program supported by the IMF.

A congressional mandate that Treasury extend ESF financing to Poland raises serious constitutional questions and may be unconstitutional. First, such a requirement forces the Executive Branch to enter into negotiations with and conclude an agreement with a foreign government—a serious encroachment upon the President's constitutional authority to determine the foreign policy of the United States through negotiating and concluding agreements with foreign governments.

Also, by requiring a loan for Poland, Congress would be dictating the precise form of how the Executive Branch will execute a particular statutory provision, 31 USC 5302(b). Under this provision, Congress has given the Executive a broad statutory authorization to engage in ESF financing after having met certain conditions. A Congressional mandate that the Executive carry out ESF financing for a particular country interferes with and infringes upon Executive flexibility to implement the laws of the United States.

Mr. SOLARZ. What is the rate of interest on funds lent through the Exchange Stabilization Fund?

Mr. BARREDA. Three month Treasury bills.

Mr. SOLARZ. How much of a period elapsed between the time we gave Mexico the \$3.5 billion loan and the time it took to pay us back?

Mr. BARREDA. I will check that.

Mr. SOLARZ. How much time was there between the time when we agreed to the loan and the time they obtained an IMF agreement?

Mr. BARREDA. I will bring back that information.

Mr. SOLARZ. Was that loan made in anticipation of an IMF agreement?

Mr. BARREDA. As I said, I will get the details. That is an 1988 loan and I will be happy to come up and discuss it.

[The information follows:]

Negotiations were never completed for the proposed Mexican bridge loan of \$3.5 billion. Therefore, details such as the source of repayment remained tentative and have no "historical" significance.

Mr. SOLARZ. I gather Mexico never drew down on the loan, but we did offer it and they could have drawn it down. You don't know what form of repayment it took?

Mr. BARREDA. I have to check.

I don't want to speculate. I will come up with the answer for you.

Mr. HAMILTON. The law provides that the Secretary of Treasury controls this fund, doesn't he?

Mr. BARREDA. With the approval of the President.

Mr. HAMILTON. It gives the Secretary of the Treasury open ended authority to use those ESF funds when he considers it necessary.

Mr. BARREDA. Consistent with the International Monetary Fund and a system of stable exchange rates under the law.

Mr. HAMILTON. Consistent with what?

Mr. BARREDA. Our obligations under the International Monetary Fund and a stable exchange rate system.

Mr. HAMILTON. You don't mean to say IMF can veto the use of the stabilization funds?

Mr. BARREDA. Our use should be consistent with our obligations under the fund.

Mr. HAMILTON. Is that written into the law?

Mr. BARREDA. Yes.

Mr. HAMILTON. Ordinarily, those loans do not exceed six months?

Mr. BARREDA. That is correct.

Mr. HAMILTON. But they can.

Mr. BARREDA. With presidential approval, according to the law.

#### WORLD BANK STRUCTURAL LOANS TO POLAND

Mr. HAMILTON. Talking about the World Bank, are you prepared to support large structural loans by the World Bank to Poland?

Mr. BARREDA. We support World Bank loans to Poland.

We don't know at this time what would be the most efficient way of getting money to Poland that they could put to best use. It could be project loans, sector loans or structural adjustment loans.

Mr. HAMILTON. Have you talked to the World Bank about it?

Mr. BARREDA. We have. They have explained to us the loans they have in the pipeline. They are designed to get money to Poland quickly and generate exports.

Mr. HAMILTON. Does World Bank lending to Poland have to wait on an agreement between IMF and the Polish Government?

Mr. BARREDA. It has to wait on a feeling that the macro-economic environment is such that they will be effective loans.

Mr. HAMILTON. And we go to the World Bank saying the loans are needed.

Mr. BARREDA. What we are telling the World Bank is that we support active programs in Poland that are of maximum benefit to the Polish people.

Mr. HAMILTON. Do we support World Bank lending to Poland?

Mr. BARREDA. Yes, sir.

Mr. HAMILTON. In what amount?



Mr. BARREDA. As much as the World Bank can work out with the Polish authorities and put the money to good use. We don't have a target in mind. We are not saying what type of loan it has to be.

Mr. HAMILTON. Can you support a \$500 million World Bank loan to Poland after the implementation of a IMF agreement?

Mr. BARREDA. I don't know if that would be a project loan, a sectoral loan, a structural adjustment loan. The United States supports productive loans to Poland. We don't have a cap on that number.

Mr. HAMILTON. Has the World Bank indicated to you any reason why they could not disperse a loan to Poland within the next year?

Mr. BARREDA. They intend to disperse \$300 million relatively rapidly after the Fund program and another \$200 million shortly after that and they are prepared to enter negotiations on additional loans. Structural adjustment loans are particularly time-consuming to negotiate.

Mr. HAMILTON. We want to get your assurance that you are prepared to support appropriate assistance from the World Bank to Poland when the Polish Government has implemented a comprehensive economic reform program.

Mr. BARREDA. We are in full agreement.

Mr. HAMILTON. You are prepared to do that.

Mr. BARREDA. We have done it already. We will continue to do so. If you will allow me a little editorial aside, it would help if we had budgetary resources. The House bill did not provide any money for this.

Mr. HAMILTON. It would help us if the President would come up here and fight for it. I take your point and I am personally prepared to support that, of course.

Mr. BARREDA. Thank you, Mr. Chairman.

#### DEBT RESTRUCTURING

Mr. HAMILTON. Now, let's talk about debt restructuring. You did not talk about debt restructuring. I think the President mentioned it at some point in one of his speeches.

Mr. BARREDA. I think I mentioned the Paris Club activity.

Mr. HAMILTON. When do you anticipate Poland will reach an agreement with the Paris Club?

Mr. BARREDA. We are talking with the Poles right now on that subject and with the other Paris Club members. It depends partly on what type of an agreement we reach with the Poles.

Mr. HAMILTON. They have a debt of roughly \$40 billion.

Mr. BARREDA. Officially, it is \$26 billion under the Paris Club.

Mr. HAMILTON. And the Paris Club is composed of how many countries?

Mr. BARREDA. It is the countries that have official debt to Poland. Mainly the OECD countries, but it also includes Brazil.

Mr. HAMILTON. What is the debt of the Polish Government to the United States Government?

Mr. BARREDA. \$3 billion.

Mr. HAMILTON. Are they making any payments on that debt?

Mr. BARREDA. They are not.

Mr. HAMILTON. When did they make their last payment?

Mr. GOLDTHWAIT. It was many months ago.

Mr. BARREDA. CCC said it was many months ago.

Mr. HAMILTON. So reschedulings will have to include both principle and arrears as well, is that right?

Mr. BARREDA. That is right.

Mr. HAMILTON. Can you tell us how many months in arrears they are?

Mr. BARREDA. At least two years in arrears.

Mr. HAMILTON. What are we prepared to do with regard to this debt that Poland owes us?

Mr. BARREDA. We are in favor of a prompt and generous rescheduling. There are many variables involved in this so we have not taken a specific position. The variables include how long is the grace period, how long is the period in which payment is made, and the cut-off dates involved.

Mr. HAMILTON. Does it include forgiveness?

Mr. BARREDA. No, sir, it never has.

Mr. HAMILTON. So you have never indicated you are willing to forgive any of this Polish debt, you are only willing to restructure it and stretch it out, correct?

Mr. BARREDA. That is correct.

Mr. HAMILTON. Presumably that stretch out would occur over several years.

Mr. BARREDA. The normal one for a country with the income level of Poland is a five-year grace period and a five-year period to pay it back.

Mr. HAMILTON. We are prepared to give debt relief to Poland through rescheduling, right?

Mr. BARREDA. That is correct.

Mr. HAMILTON. We are not prepared to give debt relief to Poland through forgiveness?

Mr. BARREDA. That is correct.

Mr. HAMILTON. Now, we have heard reports in this committee of new subsidies in Poland for declining industries like steel and coal and shipbuilding and the like. Does anybody know anything about that? Have you heard about that at all?

Mr. KAMMAN. No.

Mr. HAMILTON. You have not heard about those reports?

Mr. KAMMAN. No, sir, we have not.

Mr. HAMILTON. Mr. Gejdenson

Mr. GEJDENSON. One of the things that is very frustrating here is that from the beginning the members of this committee get the sense that there is absolutely no urgency on the part of the Administration in responding to what is the premier opportunity since the end of World War II to exchange communist governments and if somehow the Solidarity folks had taken the Capital with machine guns and there were Soviet tanks on the way, we would have the President and the Vice President at Andrews Air Force base loading planes full of weapons.

Since it is a peaceful takeover and we are not going to have a war, there is not a lot of interest in it. It is so frustrating that, as the Chairman has pointed out, we have this evolving plan that will go through a couple more changes that seems to have no immediate need for action.

## TRADE CREDIT INSURANCE PROGRAM

The situation and the Polish Government will be able to survive without any immediate cash transfers and we will kind of go along and I guess it is all going to work somehow. That is our hope. Let me go to the proposal that was made yesterday on providing a \$200 million fund for trade credit insurance to get the Export Import Bank loans operating.

How long has a similar program operated in Central America?

Mr. KAMMAN. I am afraid we don't have the answer.

Mr. GEJDENSON. Do you know if it has been successful in Central America?

Mr. BROWN. It is my understanding that it has. I believe it was initiated in the mid 1980s.

Mr. GEJDENSON. Has AID had to pay out of its sums to cover any Ex/Im losses in Central America?

Mr. BROWN. It is my understanding that they have not.

Mr. GEJDENSON. Do you folks support the proposal of the Trade Credit Insurance Program for Poland and Hungary in H.R. 3402, the bill that was introduced yesterday?

Mr. KAMMAN. We have not had a chance to study that.

Mr. GEJDENSON. Have you looked at it?

Could that kind of thing work in Poland and Hungary?

Mr. KAMMAN. I would rather not comment, Mr. Chairman. If it is an Ex/Im program, I think they are the people who ought to react to that.

Mr. GEJDENSON. Could you supply that answer for the record in consultation with the folks at Ex/Im or whatever you need?

Mr. KAMMAN. Surely.

[The information follows:]

Under the TCIP Eximbank provides short-term insurance and guarantees in support of U.S. exports to private sector entities in Central America. The program was designed to enable Eximbank to determine that reasonable assurance or repayment exists for such transactions. AID established a contingency reserve fund to guarantee repayment to Eximbank.

The program began operations in 1985. As of June 1989, shipments under the program totaled \$662 million, or approximately \$165 million a year.

Mr. GEJDENSON. Since there is not a lot of private sector activity in Poland, would most of the banks have to go to the government? If we are going to try to start things—you operated in Egypt. Wasn't that the case in Egypt in the early eighties when there was no private sector to funnel funds through, so it just sat there for years?

Mr. BROWN. That was part of the reason why the private sector projects did not move the terms of the program were also part of the reason.

## COMMODITY CREDIT CORPORATION

Mr. GEJDENSON. We don't want this program to sit for years after taking some time to start. We have to address some of these issues soon. The Senate bill makes Poland eligible for CCC loans to purchase American agricultural commodities. Poland is currently ineligible because it is in default on previous CCC loans. What is the U.S. Government's agricultural food program and does the Ad-

ministration currently plan to utilize to meet the \$108 million food commitment to Poland. Are you going to use CCC?

Mr. GOLDTHWAIT. We will not use any CCC credit authority to meet the food aid package as announced. It will be met through other resources, including other resources of the CCC, but donational national resources as opposed to credit resources.

Mr. GEJDENSON. Do you know where the resources are coming from?

Mr. GOLDTHWAIT. We are looking across-the-board at all our authorities. We are expecting the bulk of the commodities will be financed under Section 416 donational program.

Mr. GEJDENSON. Does it trouble you that Poland with \$40 billion in debt, half of our solutions seem to give them additional debt burden? Is that going to help them begin a private sector economy?

Mr. KAMMAN. Mr. Chairman, that is what we have been trying to avoid, piling on more debt. The proposal just announced today is for \$200 million in grant funds. The food assistance has been by and large funds that don't result in any debt for Poland. We have recognized all along that we don't need to add to their debt.

That is one of the difficulties and challenges to finding the appropriate means to help them.

Mr. GEJDENSON. I think that, unless what we have heard is somehow overstated, that there is a crisis situation in Poland, that this is an incredible opportunity that legislators sitting in this committee for the last four decades have made speeches both here on the floor and in their home districts about.

I hope we don't study it to death trying to find a solution that meets Gramm-Rudman while we squander this opportunity. Thank you, Mr. Chairman.

Mr. LANTOS. Mr. Solarz.

Mr. SOLARZ. Mr. Barreda, is it your position that in order to justify the use of any money from the Exchange Stabilization Fund as a loan to Poland that they would have to provide us with some guaranteed mechanism for the repayment of the loan?

Mr. BARREDA. We would certainly want an assured means of repayment. As you have indicated, we would much prefer a IMF program to be in existence.

Mr. SOLARZ. But in the absence of that, you are saying we would not be justified in using that particular fund even if we were convinced there is a need for it? In other words, there has to be an assured method of repayment?

Mr. BARREDA. Yes, otherwise it requires appropriation.

Mr. SOLARZ. Once they reach an IMF agreement, how long does it take to get the money?

Mr. BARREDA. It can take up to two months.

Mr. SOLARZ. Apparently there are ways of offering assured repayment other than an IMF agreement. You don't know what they are, but you are sure they exist.

Mr. BARREDA. Yes, that is why we offered to come up and discuss that with you.

Mr. SOLARZ. Can you tell us what other forms of assured repayment there might be in the Polish case?

Now, on the question of the need for a short-term infusion of funds between now and the end of the fiscal year, Mr. Kamman's

testimony was that we see no need for it at the moment. Is that correct?

Mr. KAMMAN. If I could correct that. I said the Poles asked for an amount but they have not demonstrated how they would spend it.

Mr. SOLARZ. They have asked for how much?

Mr. KAMMAN. \$490 million.

Mr. SOLARZ. Did we ask them how they arrived at the figure?

Mr. KAMMAN. We have asked them that. They indicated it would be the gap from what they could obtain deferring commercial bank repayments and other ways to raise a sum they need for imports and the sum they have on hand.

We have not been able to examine their figures about the requirements to spend that amount on imports during that period.

Mr. SOLARZ. Are we going to examine their figures?

Mr. KAMMAN. This would certainly be one of the purposes, first of all, of the President's mission to go to Poland. Secondly, we would be interested in seeing what the IMF learns when they send a mission over there.

Mr. SOLARZ. When is our delegation leaving?

Mr. KAMMAN. Perhaps three weeks away.

Mr. SOLARZ. How long do you anticipate the delegation will be there?

Mr. KAMMAN. That would be subject to organizing. I would assume they would be there for about a week.

Mr. SOLARZ. Now were they asking for a \$490 million short term loan from us alone?

Mr. KAMMAN. The 490 is what they have presented to all the Western industrialized countries from whom they are asking the short-term and longer term \$1 billion.

Mr. SOLARZ. Regarding the \$490 million short-term loan, by when do they say they want it?

Mr. KAMMAN. They believe it is necessary between now and the end of the year.

Mr. SOLARZ. When do they indicate they would be prepared to pay it back?

Mr. KAMMAN. In effect, they have not been able to indicate that. That is, of course, another problem.

Mr. SOLARZ. Assuming we decided they do need it, and we send our mission over there and it looks like they have a good case, what would be our conditions, if any, for agreeing to participate in an effort to give that \$490 million? Presumably it would not include an IMF agreement, because this assistance is explicitly supposed to precede an IMF agreement.

What would the conditions be?

Mr. KAMMAN. I don't think we can examine the conditions until we have more information on what their needs are.

Mr. SOLARZ. Would an assured repayment be a condition?

Mr. KAMMAN. If it were to be a loan, I am sure that would be a condition. If it were to be in some other form, then we might look at some other means of funding it.

Mr. SOLARZ. For how long do they want the loan?

Mr. KAMMAN. They have not indicated that. They said that is their gap between now and the first of the year.

Mr. SOLARZ. Regarding the stabilization loan of \$1 billion, how soon do they want that?

Mr. KAMMAN. They want it available throughout 1990. When they would add to it or whether it would be paid is still very vague.

Mr. SOLARZ. Assuming we would participate in this, for how long would we like that loan to be?

Mr. KAMMAN. That is not a loan. We are proposing to make that a grant, not to add to Poland's debt and help them with stabilization with a grant rather than a loan.

Mr. SOLARZ. Is the \$490 million they are asking for a loan or a grant?

Mr. KAMMAN. They are asking for external funding. I am sure they would like it if it was a grant but they will also take a loan.

Mr. SOLARZ. Does it take three weeks to determine whether their figures are accurate with respect to the \$490 million?

Mr. KAMMAN. I think we might have a preliminary judgment when the IMF team has finished its work, which I think will be next week or perhaps we will get the results on their return.

Mr. SOLARZ. Let's assume for the purpose of discussion that we are satisfied that there is a need. So far everything else they have said has been more or less true and has been confirmed.

I notice that you, more or less, seem to be buying off on virtually the entirety of their program, at least in principle.

I mean, we have not signed off but we have indicated a willingness to be responsive. Assuming that they do need the \$490 million loan, what will be our position then? I am talking about the short term infusion between now and the end of the calendar year.

Mr. KAMMAN. That is a fairly hypothetical question, but we would not expect that would be all our responsibility. When we could help them to do it either as a bridge or in some other form is going to depend on understanding what it needs to be spent for, whether we have other sources for it or whether it has to come out of the budget.

Mr. SOLARZ. From that point of view, would it be useful if they got it as a bridge loan to be repaid early next year on the assumption that they would get an IMF agreement then?

Mr. KAMMAN. I think they would welcome it either as a bridge loan or as a grant. When in some other form it would be useful, I don't think we have had that much discussion with them yet.

Mr. SOLARZ. Are you saying, that if we were to use the Exchange Stabilization Fund without an assured mechanism of repayment, that this would be an illegal use of the fund given the criteria that have been built into it? Or are you saying that it would be a breach of the fiduciary responsibility of the Secretary of the Treasury?

Mr. BARREDA. We think it would be an improper use of the funds.

Mr. SOLARZ. Would it be illegal? Something can be improper without being illegal. I am not suggesting we do something improper, but I want to know where we stand.

Mr. BARREDA. We will have to give you an opinion on that. It is an improper use of the funds. We don't think it should be used that way. If there is going to be a chance of loss, we think there should be an appropriation.

Mr. SOLARZ. But can you let us know whether it is illegal, as well as improper? Yes?

Mr. BARREDA. Certainly.

[The information follows:]

It would not be improper or illegal to extend a bridge loan if the Secretary of the Treasury concluded that such a loan would be consistent with U.S. obligations in the IMF and was necessary. In the case of Poland, it is highly unlikely that such a conclusion could be justified.

#### LECH WALESZA'S VISIT TO WASHINGTON

Mr. SOLARZ. Finally, there has been discussion about inviting Mr. Walesa, when he comes here, to address a joint session of Congress. Mr. Kamman, does the Administration have a view on this? Does it support such a request or oppose it?

Mr. KAMMAN. The Administration has always regarded the issue of who addresses the Congress to be in the prerogative of the Legislative Branch. I have mentioned today, I think you were here at the time, that the President today announced that he would be inviting President Jaruzelski and Prime Minister Mazowiecki in the coming year.

When Walesa is here, which I think in November he will receive attention in many areas, but I think the form is up to the Congress.

Mr. SOLARZ. You would be not in objection to inviting him to address a joint session?

Mr. KAMMAN. I think that is completely in the realm of the congressional prerogative.

Mr. SOLARZ. I would have hoped you could have done better than that. This man is one of the most extraordinary men of our century. Moreover, it is not like the Administration takes the position that it never speaks out on this question. In the past when we have had people who have been invited to address a joint session, it has always been accompanied by a request from the President to the leadership urging that such an invitation be extended.

So in light of that fact, do you want to let us know whether the Administration would like such an invitation to be extended?

Mr. KAMMAN. I think the Administration judges that Congress knows its own mind on the issue and we will let the Congress be the judge.

Mr. SOLARZ. I must say I am flabbergasted with your reluctance to affirm the desirability of having someone like Mr. Walesa address a joint session. I cannot for the life of me understand what possible reason you would have to not want him to address a joint session.

Mr. KAMMAN. I have not said we don't want him to address the Congress. It is up to the Congress.

Mr. SOLARZ. But you have not hesitated to suggest we invite other people to address a joint session. I assume we obtained such a request with respect to President Salinas who spoke to us today.

Mr. KAMMAN. I think the decision has been made as I understand it that the Congress has invited him. Therefore, I think the Congress has made its decision.

Mr. SOLARZ. Yes, without help from the Administration, which I think is both inexplicable and unfortunate. The reality is that he

will be addressing a joint session. I am delighted the Speaker has issued that invitation.

I certainly look forward to hearing him when he comes.

Mr. Chairman, let me compliment you for presiding over what I think has been a very productive hearing and for the leadership you have shown on this issue.

Mr. HAMILTON. I thank the gentleman.

I, of course, thank him for his help as well which has been absolutely vital in development of the bill.

#### NEW SUBSIDIES FOR DECLINING POLISH INDUSTRIES

I was asking you about the new subsidies in Poland for some of the declining industries, steel, coal and ship building. You indicated you had not heard anything about that.

The source of my information was an article in the Journal of Commerce. Unfortunately, I don't have the date on it. It says that the Polish Finance Minister told reporters on Wednesday that his country was likely to provide subsidies to steel, coal and shipbuilding during a transition period. He didn't say anything about that to us?

Mr. KAMMAN. Certainly not in the conversations I was part of.

Mr. HAMILTON. That is new information to you.

What would be our reaction to that?

Mr. KAMMAN. I think the key word there is the transition period. The proportion of industries in Poland that have been subsidized over the years is very high.

Mr. HAMILTON. Certainly including steel, coal and shipbuilding.

Mr. KAMMAN. Therefore, if the whole country is not to be plunged into chaos, there is some transition requirement there.

Mr. HAMILTON. The word "transition" is very important to you and you would not favor, I presume, the continuation of those subsidies?

Mr. BROWN. No, we would not. We want to see Poland move away from subsidies and have a market economy.

Mr. HAMILTON. I want to ask about the Enterprise Funds. I am not sure how those things operate. Do you have a board of directors?

#### THE BOARD OF DIRECTORS OF THE ENTERPRISE FUNDS

What is your model?

Mr. BROWN. We have used two institutions to help develop the model—the International Fund for Ireland and the Luso-U.S. Foundation in Portugal.

Mr. HAMILTON. Who is going to call the shots about what grants and loans will be made?

Mr. BROWN. The Enterprise fund's board of directors will dictate the policy under which the funds operate.

Mr. HAMILTON. Including what grants and loans will be made available, I presume.

Mr. BROWN. That is correct.

Mr. HAMILTON. Who appoints the Board of Directors?

Mr. BROWN. The Board of Directors will be made up of people who will be approached by the Administration to set up the funds.



Mr. HAMILTON. Appointed by the President.

Mr. BROWN. They will not be appointed by the President. These will be persons who will be approached to see about setting up these funds.

Mr. HAMILTON. They will be private citizens.

Mr. BROWN. Correct.

Mr. HAMILTON. American citizens.

Mr. BROWN. Both American and Polish.

Mr. HAMILTON. And Polish citizens as well?

Mr. BROWN. That is correct.

Mr. HAMILTON. Will there be both grants and loans?

Mr. BROWN. There will be, but the way we foresee it now, the largest portion will be loans.

Mr. HAMILTON. Will there be a revolving fund set up?

Mr. BROWN. It is anticipated that the funds will be self-sufficient organizations and will develop revolving funds.

Mr. HAMILTON. You will take contributions from other sources?

Mr. BROWN. Correct. Private, public, other countries.

Mr. HAMILTON. Is there an agency of the United States Government that is the lead agency in organizing and developing and working with the Enterprise funds?

Mr. BROWN. It has not been determined. Agency for International Development has been working on the establishing of these funds.

Mr. HAMILTON. Would you support or oppose the provision in the bill that would designate the Agency for International Development the lead agency?

Mr. BROWN. I believe the way the Administration's bill was drafted, the President was going to be making that decision.

Mr. HAMILTON. Now, the request mandates \$300,000 available for administrative expenses of the enterprise funds. What are the administrative expenses there? You are not paying any salaries, I presume, are you?

Mr. BROWN. This would be for the responsible agency to get the fund up and moving.

Mr. HAMILTON. Would we pay the administrative expenses in Poland as well as here?

Mr. BROWN. It was understood that the administrative funding for the fund itself would come out of its own resources. This \$300,000 was the authority for the responsible agency to help set up the fund.

#### FOREIGN ASSISTANCE ACT OF 1961

Mr. HAMILTON. Are there any restrictions in the Foreign Assistance Act of 1961 as amended on assistance to Poland?

Mr. BROWN. Can you clarify that?

Mr. HAMILTON. Well, we have a lot of restrictions in the Foreign Assistance Act. I am just wondering which of those needs to be knocked out if we are going to do what you want us to do with respect to Poland?

Mr. BROWN. Yes, we have a number.

Mr. HAMILTON. I understand that is a very technical question. What I will have you do, then, is to supply to me an answer if you

would, to my question. You have many, many restrictions in the Foreign Assistance bill, some of which might apply to Poland. We want to make sure we clean those up with respect to Poland, so we don't run into any trouble there?

Mr. BROWN. We are studying this matter very carefully.

Mr. HAMILTON. We are talking about section 620, and a number of subsections thereof. You are familiar with 620, 562, 572, of the Appropriations Act, 562 of the International Security and Development Cooperation, Section 481(h) of the Foreign Assistance Act, and I am sure there are many others as well.

Mr. BROWN. We are trying to deal with that issue by including a statement in the legislation authorizing activities "notwithstanding any other provision of law."

Mr. HAMILTON. Maybe that is the easy way to do it. Is that it?

Mr. BROWN. That would provide us the flexibility to implement the legislation.

#### COMPOSITION OF FOOD AID

Mr. HAMILTON. Now, agricultural food aid. Could you give us some idea of the composition of the food aid? I mean, are the Polish farmers going to be happy to see us dumping a lot of food products into Poland?

Mr. GOLDTHWAIT. With respect to the second part of your question, we want to be very careful that food aid, as it arrives, does not discourage their own production.

With respect to the first part of the question, for fiscal year 1989, we have shipped 11,500 tons of sorghum and 4,500 tons of butter. With respect to the tranch of assistance, \$50 million announced by the President August 1, we anticipate that will consist of an additional 10,000 tons of butter and perhaps a little less than 200,000 tons of corn. We think these quantities can be absorbed relatively easily through the fall months and into the winter.

The exact composition of the other portions of the food aid package are not absolutely fixed as of now. We anticipate that the meat portion will be between 7 and 10,000 tons. We anticipate that the other portions will consist of roughly equal quantities, equal funding of additional corn, butter, vegetable oil and cotton or rice.

Mr. HAMILTON. What is going to be the breakdown between consumer products on the one hand and feed and grain and that sort of thing on the other?

Mr. GOLDTHWAIT. Most of the second portion will be consumer products with only about an additional 100,000 tons of feed grains. In the first, it is mostly feed grains.

Mr. HAMILTON. The Minister of Finance emphasized the importance of feed grains particularly. Will you give us a complete breakdown for the committee record of how this food aid is going to be composed?

Mr. GOLDTHWAIT. Yes sir.

[The information follows:]

The first tranche of food aid, \$50 million, was announced by President Bush August 1 and will be provided under the authority of Section 416(b), using available stocks of the Commodity Credit Corporation (CCC). At present we expect to provide the following:

	<i>Million</i>
Butter .....	\$10
Corn .....	24
Transportation .....	16

This tranche will include the commodities required to be donated under Section 416(b) by Section 2223 of the Omnibus Trade and Competitiveness Act of 1988, (the "American Aid to Poland Act of 1989").

The second tranche, also \$50 million, was announced by the President on September 14. Final determinations for the entire tranche are still under discussion, but at present we anticipate the following:

---

Corn .....	\$10 million .....	Section 416(b) using CCC stocks.
Pork .....	\$10 million .....	Food for Progress.
Butter .....	\$10 million .....	Possible section 416(b).
Cotton, rice, vegetable oil .....	\$20 million .....	Possible Public Law 480 title I sales.

---

These dollar estimates cover both commodity and transportation costs.

Mr. HAMILTON. Do you think agricultural education, training and technical assistance need to be a part of the program for Poland? I presume you do think so?

Mr. GOLDTHWAIT. We think this is important.

Mr. HAMILTON. Do you support the idea of trying to help set up an agricultural extension service for Poland? That has been suggested in the Senate bill, I believe.

Mr. GOLDTHWAIT. Certainly Poland needs development of agricultural extension as part of their agricultural development. I think that we would reserve judgment on whether the best avenue is for us to do that particular thing, take that particular step for them.

Mr. HAMILTON. What assistance has the European Community provided to Poland to date?

Mr. KAMMAN. The European Community, are speaking of food aid or the whole package?

Mr. HAMILTON. Everything.

Mr. KAMMAN. Food aid has been \$140 million. These are figures pertaining to things announced, not all of them delivered yet. The community, as a community, has also announced that they are going to provide in 1990 over \$218 million as a community. They are also urging members individually to provide assistance.

I would like to add that—

Mr. HAMILTON. Wait a minute. I want to get clear in my mind what they have provided so far.

Mr. KAMMAN. So far they have committed \$140 million for food, \$218 million as a community, \$109 million as individual members of the community—non-food.

Mr. HAMILTON. So is the \$109 part of the \$218?

Mr. KAMMAN. No. It is additional.

Mr. HAMILTON. What form will that take?

Mr. KAMMAN. It is in a variety of programs ranging all the way from management training, some technical assistance.

Mr. HAMILTON. Any cash?

Mr. KAMMAN. I think there is no specified proportion of it that is cash. I think the \$200 million may be in part cash.

Mr. HAMILTON. They have not provided any cash thus far?

Mr. KAMMAN. We have a slightly better breakdown here on what they are going to be providing.

Mr. BROWN. The EC action plan proposes, on the agricultural side, measures to deal with the shortage of agricultural outputs. They are proposing abolition of quantitative restrictions, GSP. On the investment side, the EC is proposing that Poland and Hungary be eligible for loans from the European Investment Bank. They have also announced activities in vocational training.

Mr. HAMILTON. Is that part of this money he was telling me about, part of the \$218 million?

Mr. BROWN. That is part of the \$218 million.

Mr. HAMILTON. I want a complete listing of what the European Community has done so far, and what they have promised to do in the future, and when they have promised to do it. Can you give me that?

Mr. KAMMAN. Yes, we will supply that.

[The information follows:]

#### NON-UNITED STATES ASSISTANCE TO POLAND AS OF OCTOBER 5, 1989

##### EC COMMISSION

Food Aid: \$140 million for 1989-90.

Project assistance: \$218 million for 1989-90.

##### EC MEMBERS

U.K.: \$40 million over 5 years for management training.

Netherlands: \$1.8 million.

France: \$100 million in trade credits of which \$23.2 million short-term credits and \$77.8 million medium-term credits.

Denmark: \$30 million in project assistance, including environmental.

Others: \$108 million in EC bilateral aid as called for in Commission "Action Plan."

##### NON-EC

Norway: \$10 million.

Switzerland: food aid: \$3 million.

Austria: food aid: \$1.5 million.

Sweden: \$46 million to assist development of democracy.

Total non-United States: \$637.8 million.

NOTE.—Other countries, including the FRG and Japan, have discussed assistance programs but have not announced their plans.

Mr. HAMILTON. As of now, the European Community has not provided any cash aid to Poland or Eastern Europe, correct?

Mr. KAMMAN. With the exception of amounts that were announced before the change of government in Poland, which are largely credits. For example, France announced some long term and short term credits. But here has been none in the form of cash since the new government took over in Poland.

Mr. HAMILTON. Do you know the value of Poland's debt to Western Europe? Most of their debt is owed to Western Europe.

Mr. BARREDA. That is correct. We could add it up for you.

[The information follows:]

Poland owes \$20.2 billion to 14 Western European governments. The largest European creditors are Germany (\$6.7 billion), France (\$3.7 billion), Austria (\$3.1 billion) and the UK (\$2.4 billion)

Mr. HAMILTON. Now, if we are going to achieve an early and generous debt rescheduling, as the President said, that will require an

agreement of the European Governments, will it not? Particularly West Germany?

Mr. BARREDA. That is correct.

Mr. HAMILTON. I presume we are talking with them about that now?

Mr. BARREDA. That is correct.

Mr. HAMILTON. Has the West German Government indicated to us how they feel about this matter of debt rescheduling?

Mr. BARREDA. I think there is an agreement in principle that there will be a debt rescheduling. The discussions now are what form it should take, what do the Poles want, and we are about in the early stages of discussions now.

Mr. HAMILTON. Has the West German Government indicated to you that they are prepared to accept a moratorium on payments?

Mr. BARREDA. The discussions have been pretty general.

Mr. HAMILTON. But you believe the West German Government is receptive to rescheduling?

Mr. BARREDA. Yes. I think there is a general agreement in the Paris Club that we will do something for Poland. What will it be and when, are still being discussed.

#### JAPANESE AID

Mr. HAMILTON. Has Japan helped out at all on rescheduling? They are engaged in the conversations on rescheduling, correct?

Mr. BARREDA. Yes.

Mr. HAMILTON. Are they providing any other help to Poland?

Mr. KAMMAN. I think basically they are not. They have regarded Poland as not credit worthy and they have not provided export credits or other types of assistance.

Mr. HAMILTON. I saw a report that Japan was prepared to provide \$14 million in technical assistance for environmental protection and business management training. Do you know about that?

Mr. KAMMAN. I think that is correct. The dollar amount is new to me, but they have mentioned to us that they have in mind working with the Poles on environment.

Mr. HAMILTON. Are we asking the Japanese to kick in some here?

Mr. KAMMAN. We have very much urged them to get involved in a larger way.

Mr. HAMILTON. Will they participate in that \$1 billion that you mentioned earlier today?

Mr. KAMMAN. We think it is pretty important that they participate and we are asking them to do so. There is no commitment yet.

#### THE GROUP OF 24

Mr. HAMILTON. Other than the European Community, are any other countries providing assistance to Poland and Hungary?

Mr. KAMMAN. Yes. The Group of 24, which convened after the Paris Summit, contains many countries that are not part of European Community. On the most recent meeting on September 26, it was announced that Sweden would provide \$46 million in various forms of aid. Some of these commitments run over two or three

years or more. Norway has committed \$10 million approximately. The British—

Mr. HAMILTON. Are these cash?

Mr. KAMMAN. They are by and large not cash. They are various forms of projects. Austria has committed food aid. Switzerland has committed food aid. Iceland has committed a small amount of food aid. So there is quite a number of countries involved that are not members of the European Community.

Mr. HAMILTON. If you look at the \$1 billion fund, the major contributors will be the United States, West Germany, Japan? Are there any others?

Mr. KAMMAN. I would expect the British probably would play an important role. The French, any other big hitters there, Bill?

Mr. BARREDA. Those are the main ones.

Mr. HAMILTON. Would you agree that the people that we are now seeing from the Polish Government, who I think could be characterized as market reformers, are probably the best people that we are likely to see in these offices from the standpoint of our objectives?

Mr. KAMMAN. We are very pleased with the quality of people who have been chosen to lead this government and the advisers that are working with them.

Mr. HAMILTON. All right. We have a good many requests that we have made of you here today. I talked with the Chairman just a moment ago and he wants to move this bill early next week. So we would like to have those requests by early next week. If you could possibly do it by Friday, we would like the information, and if not Friday, then Monday.

In addition to that, we have a few fairly technical questions that we will submit to you.<sup>1</sup> We would like those answered as well.

Mr. KAMMAN. Very well. I think we can make that target, Mr. Chairman.

Mr. HAMILTON. Thank you very much.

The subcommittees stand adjourned.

[Whereupon, at 5:07 p.m., the subcommittees were adjourned.]

<sup>1</sup> See appendix 3.

## UNITED STATES ECONOMIC PROGRAMS FOR POLAND AND HUNGARY

---

WEDNESDAY, OCTOBER 11, 1989

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON FOREIGN AFFAIRS,  
*Washington, DC.*

The committee met in open markup session at 2:30 p.m., in room 2172, Rayburn House Office Building, Hon. Dante B. Fascell (chairman) presiding.

Chairman FASCELL. The committee will come to order.

We meet today to consider several pieces of legislation. The first order of business is H.R. 3402, assistance for Poland and Hungary, which the Chief of Staff will report.

Mr. BRADY. Amendment in the nature of a substitute to H.R. 3402.

Chairman FASCELL. Without objection, further reading of the bill will be dispensed with. It will be printed in the record in full and open for amendment.

The basic bill was introduced on October 4 with extensive bipartisan co-sponsorship. It is designed to meet the immediate and mid-term needs and opportunities presented by the political and economic changes that are taking place in both Poland and Hungary.

The bill under consideration today marks an effort by this committee to respond in a timely and adequate and responsible manner to the unprecedented movement toward democracy in Poland and Hungary we have witnessed in the past few months.

We all know that this transition will be difficult as these countries strive to institute political and economic reforms never before attempted on such a large scale in such a short period of time. They need substantial help, both now and in the long term; not just from the United States, but from other countries with shared values and an interest in promoting stability and peace and political and economic improvements.

This bill was referred to three committees of the House. The other two committees, Ways and Means, and Banking, are marking up this legislation today or are waiving their consideration.

The bill has also been sequentially referred to other committees, Education and Labor, Public Works and Transportation, Agriculture, and Energy and Commerce. Those committees have been involved in the drafting of this legislation, both in the principal bill and the substitute which I intend to offer later on.

Hopefully, the leadership will schedule this bill some time next week.

The members have before them the substitute text for H.R. 3402 which I will introduce.<sup>1</sup> Before that, let me ask Mr. Broomfield, the ranking member, if he cares to make any comment.

#### ADMINISTRATION VIEWS ON AID PACKAGE

Mr. BROOMFIELD. Yes, briefly, Mr. Chairman.

I am very happy to be a co-sponsor of this bill. I am also supporting the President's proposals for providing assistance to Poland and Hungary. I want to commend you and particularly Lee Hamilton for your efforts to work with the Administration in fashioning a bipartisan package.

I think it is essential that the United States, in tandem with our allies, give strong support to this aspiring democracy movement in these countries. In particular, we must address Poland's economic crisis in order to ensure that the unusual opportunities that present themselves there are given every chance to succeed.

I have talked with the Administration about the best approach to assisting Poland and Hungary. They have reservations, as you know, about some provisions of our bill. In addition, over the weekend, I was fortunate enough to meet with the Commissioner of the European Community, Mr. Andreson. We discussed the situation in Eastern Europe at length. He clearly stated that the Administration had coordinated the Western response with other donor countries, and it is my impression that a unified strategy is in place.

Everyone that I have spoken with is of the opinion that Poland needs immediate assistance. If we are to be responsive, the type of assistance we provide is extremely important. The package before us today furnishes an appropriate mix of both short-term emergency stabilization assistance, and the longer-term aid that will help to firmly establish in Poland a democratic society and a vibrant free enterprise economic system.

I am frankly a little uncomfortable with the high level of funding, well over the Administration's request. For the two enterprise funds, we should not be disappointed if the harsh budget constraints under which we are operating result in the appropriators being unable to reach the authorization ceilings in the enterprise funds, particularly in the out-years.

Again, I congratulate both you and Lee Hamilton.

#### CONSIDERATION OF SUBSTITUTE TEXT

Chairman FASCELL. I thank my distinguished colleague for his comments, and certainly express my appreciation to the minority members, both principals and staff, for their cooperation in getting this legislation prepared for consideration by the House.

Without objection, we will consider the substitute text as original text for the purpose of consideration by the committee. As you know, there would be four subcommittees involved in this legislation, so by agreement, we thought it would be best to present the matter to the full committee in this fashion.

You have before you the details of what is in the substitute, and also a chart of all of the numbers. Now, I will ask the chairman of

<sup>1</sup> The substitute text for H.R. 3402 appears in app. 7.



the Subcommittee on Europe and the Middle East to present the entire matter. Mr. Hamilton.

#### BROAD-BASED SUPPORT FOR LEGISLATION

Mr. HAMILTON. Thank you, Mr. Chairman.

All of us on the committee and in the House are grateful for the leadership that you and Mr. Broomfield have brought to this bill. We know that without your strong leadership, not very much would have happened.

The bill that is before us is the product of several weeks of hearings and careful study. I think it has broad bipartisan support, as you have already suggested. It has the input of the leadership of a number of committees; the Ways and Means Committee, the Banking, Finance and Urban Affairs Committee; the Agriculture Committee; Energy and Commerce Committee; and the Appropriations Committee. Leaders of those various committees have all been consulted in the process of putting this bill together, both on the majority and the minority side, I understand.

The bill also incorporates the three initiatives that President Bush has announced so far this year for Poland and Hungary: His initiative, announced in April in Michigan and in July in Budapest and Warsaw, and his initiative announced last week to provide \$200 million in additional grant assistance to Poland.

The bill before members includes a number of changes that the Administration wanted. It also incorporates provisions of H.R. 2250, a bill relating to Poland and Hungary; and H.R. 2655, the foreign assistance authorization bill, both of which have been passed by the House and both of which are awaiting action in the Senate.

#### INITIATIVES TO PROMOTE PRIVATE SECTOR

The bill undertakes a number of initiatives to promote the private sector, provide technical assistance and training in a number of areas, and to help develop the skills and managerial expertise essential to the success of a market-oriented economy in these countries.

#### DESCRIPTION OF TITLES

Without going into a lot of detail on the contents of the bill, let me identify quickly the principal titles. Title I authorizes \$200 million as part of a multilateral currency stabilization fund for Poland, and calls on the United States to take the lead in mobilizing international financial institutions to support the implementation of a plan for the Government of Poland to attack hyperinflation and carry out comprehensive economic reform.

Title II authorizes the enterprise funds that basically incorporate the President's initiatives submitted to the Congress in early September.

Title III addresses trade and investment issues, and incorporates parts of H.R. 2550, already passed by the House, as well as other initiatives to promote the private sector and encourage and protect foreign investment.

Title IV expands educational, cultural and scientific activities in Poland and Hungary, and partially authorized a request by the Administration in expanding existing programs.

Title V authorizes other assistance for the development of democratic institutions, environmental initiatives and for medical supplies for Poland.

Title VI calls for an annual report. It gives the Secretary of State the lead in coordinating the various initiatives addressed in the bill.

#### FUNDING LEVELS IN LEGISLATION

To put H.R. 3402 in perspective, it should be compared with legislation which has already been introduced. H.R. 3402 authorizes the \$337.5 million in assistance for Poland and Hungary over a three-year period with a planned outlay, and this is a rough estimate, in fiscal year 1990 of about \$284 million, subject, of course, to action by the Appropriations Committee.

Members might want to make a comparison. The Senate bill, S. 1582, voted out of committee but without Senate Floor action thus far, would authorize \$1.254 billion over three years. The Administration's request to date would authorize \$455.5 million over three years, but its projected outlay in fiscal year 1990 of \$230 million is close to the projected outlay for H.R. 3402.

The major differences between the Administration's request and the bill before the committee are several. We authorize \$200 million for the enterprise funds instead of \$125 million the Administration originally requested.

We authorize \$200 million in trade credit investments for Poland for which appropriation is not needed unless there is a default. We authorize about \$50 million in additional money for technical training, scholarships, trade and development programs, medical assistance, democracy support and education and cultural activities, and we authorize food and feed assistance for Poland in excess of \$125 million, instead of the \$100 million planned by the Administration for 1990.

Mr. Chairman, H.R. 3402 comes, as you said in your original statement, at an historic time, and the bill addresses the extraordinarily unique opportunity that we confront today in Eastern Europe.

#### LEGISLATION CONVEYS SENSE OF URGENCY

I know my colleagues are familiar with the situation in Eastern Europe but let me make three additional comments. First, the bill has the United States playing a critical leadership role in Poland and Hungary. The chief difference between the approach of the Administration and the approach in this bill is a difference in the sense of urgency.

The legislative process is slow to respond to Poland's immediate needs, and therefore the bill urges the President to utilize existing authorities to lead and coordinate an international effort in support of policy implementation of comprehensive economic reform.

The bill urges immediate and large multilateral assistance that only the international financial institutions can provide. American

leadership, in providing the \$200 million grant of a multilateral \$1 billion in structural assistance for Poland hopefully will provide the impetus needed to get our allies to act and come up with the remaining \$800 million in support of comprehensive economic reform. The President is to be commended for that \$200 million initiative.

#### BILL PROVIDES CONDITIONALITY AND FLEXIBILITY

Second, the bill is prudent and contains the needed conditionality. We do not know what will happen in Poland or Hungary. Success without the help of our allies is unclear, but failure without our assistance is assured. H.R. 3402 conditions our immediate assistance toward democracy and a market-oriented economy through the implementation of a comprehensive economic reform package.

An agreement between IMF and Poland is essential for multilateral assistance to proceed. It authorizes the appropriate mix of short and medium-term assistance to develop agriculture in the private sector. There will be annual checks on the assistance provided. The bill gives the Administration flexibility in this process.

#### LEGISLATION SETS FRAMEWORK FOR U.S. LEADERSHIP

Third, the bill must be seen as part of a process of responding to the situation in Poland and Hungary and to Presidential initiatives. This bill is a product for our leaders to move forward in providing Western leadership. We have had three Presidential initiatives on Poland and Hungary so far this year. The President plans to send a team to Poland soon, and I suspect there may be another initiative before long.

The point is that this bill must be seen as a key element in an evolving situation. It urges further evolution in Poland and Hungary and continued leadership in response to the new developments in these countries.

I think we have an important bipartisan legislative initiative before the committee. I urge my colleagues to support it. I will answer question, if I can, from my colleagues. Thank you.

Chairman FASCELL. Thank you very much, Mr. Hamilton.

Mr. Gilman?

#### LEGISLATION WILL PROMOTE DEMOCRACY IN EASTERN EUROPE

Mr. GILMAN. Thank you, Mr. Chairman.

I am pleased to join with our distinguished subcommittee chairman, the gentleman from Indiana, Mr. Hamilton, in supporting this measure. I am also pleased to be an original co-sponsor of the legislation. I commend all the members of the committee who had a hand in its drafting.

I think we are poised in a momentous time in the history of the world. As our colleague, Mr. Lantos, has been saying for two years, no one would have believed the changes that are taking place in Eastern Europe. Poland has launched the first non-communist-led government in the Warsaw Pact; and Hungary is pushing forward with unprecedented political reforms, including movement toward the establishment of a multi-party democracy.

This legislation is designed to promote political and economic democracy in Poland and Hungary as they develop and implement programs of comprehensive economic reform. I believe it is essential to provide these nations with the funds to effect changes in the economic infrastructure at the macro level, as well as to provide money for training and project development at the micro level.

Mr. Chairman, I believe that this legislation will put us closer to these goals. I am pleased to support it. I know some of my colleagues have reservations about some of the monetary levels, but I hope that we will keep our eye on the objective of trying to help these nations get on their feet.

#### PROMOTING STABILITY IN TIME OF CHANGE

Mr. LAGOMARSINO. I thank the gentleman for yielding.

I was on the trip with Mr. Broomfield. I was interested in the comments of a European Ambassador to NATO, talking about this issue. He said he felt the next 10 years will be more unstable than the last 10 years. The question is, are we going to take action that will try to settle that instability? Will we be a positive factor or a negative one?

This opportunity may not come along again for a long, long time. I think we should grab it and run with it. I have some reservations about the amount, but certainly not doing all that we can to help.

Chairman FASCELL. I thank the gentleman from California.

May I add, that just having come back also from a conference of the North Atlantic Assembly, this topic was very much on everybody's mind with respect to what other countries in addition to the United States could do, including Canada and Europe.

I think it is safe to say, and many of my colleagues here were also at that meeting, that everybody just about unanimously agreed that the time is now. The change is inevitable. The fact that there may be instability should be no cause for fear. We ought to use this as an opportunity to move forward to promote the values that we share, both in terms of human dignity and political systems and economic reforms.

So, I think this legislation makes a statement that the United States welcomes the change and wants to do what is responsible, along with other countries, to lessen the impact of the instability which must follow when you consider the enormity of the political and economic reforms that are now taking place. For the last four decades these countries have not had the benefit of the experience of doing any of these things. They are trying to catch up all at once with the 20th century.

Mr. Solarz? Let me interrupt, Steve, if I may. Mr. Broomfield wants to make an announcement of some import.

#### INTRODUCING CONGRESSWOMAN ILEANA ROS-LEHTINEN

Mr. BROOMFIELD. Mr. Chairman and members of the committee, I am very, very happy to introduce the newest member on the minority side, Ileana Ros-Lehtinen from the State of Florida, who has been elected to succeed the late Senator Pepper, who was an outstanding Member of the Congress for many, many years.

We all want to extend a very warm welcome to Ileana.

Chairman FASCELL. May the Chair also, for the majority party, add our welcome to Ileana Ros-Lehtinen for joining this committee, a colleague from south Florida, and we are delighted to have her expressing her influence on foreign policy. I am sure she will be a great leveling influence—on Mr. Broomfield, of course. I couldn't resist that.

Mr. Solarz?

#### ECONOMIC CONDITIONS AS THREAT TO DEMOCRATIC REFORM

Mr. SOLARZ. Thank you very much.

Mr. Chairman, posterity will surely record that this was one of the most significant moments in the history of the Foreign Affairs Committee. I think particular credit is due to you and to Mr. Broomfield, and especially to Mr. Hamilton and Mr. Gilman, for making possible the kind of bipartisan agreement which has brought this legislation before us this afternoon.

The events which have recently taken place in both Poland and Hungary must surely be considered among the most extraordinarily significant developments since the end of the Second World War.

To those members of the committee who may be somewhat reluctant to support this legislation because of the amounts of money it authorizes, I can only say that after four decades in which we spent literally trillions of dollars to prevent the communization of Western Europe, the relatively modest amount of money contained in this legislation, which is designed to facilitate the unraveling of communism in Eastern Europe, is a very small price to pay for the triumph of our ideals and our ideology.

I think it would be a very serious mistake for the members of the committee to assume that the triumph of democracy in Poland and Hungary is a foregone conclusion. Tremendous progress has been made, but there are powerful forces in both countries and in Eastern Europe as a whole that continue to have a vested interest in the failure of these promising experiments in parliamentary democracy.

In Poland, the military, the police, the ZOMOs, all remain under the control of the Communist Party. Hard-line elements within the Party and in the official trade unions which they control would very much like to see the current government of Mr. Mazowiecki fail so that complete communist rule can be reimposed in Poland.

The most serious threat, in my judgment, to the survival of parliamentary democracy in Poland today lies not so much in the possibility of a Soviet military intervention as in a complete deterioration of the economic situation in Poland itself. The Polish economy is in an appalling condition. They are hovering on the fringe of hyperinflation.

The painful process of economic adjustment has begun. Under the circumstances, there is a very real possibility of riots, disturbances, looting and the like, all of which could justify an effort on the part of the security forces to crush spontaneous social upheavals, and with it throw out the new Solidarity government.

Whether or not democracy survives in Poland depends more than anything else on the ability of the Polish Government to cope with this economic crisis. While the responsibility for the kind of

economic reforms that are necessary for the crisis to be resolved lie primarily with the Polish authorities themselves, the ability of the government to make necessary changes depends to a significant extent on the level of assistance they will receive from us and from other friendly Western countries and international financial institutions, which is what this bill is all about.

#### ADMINISTRATION POLICY DEMONSTRATES LACK OF INITIATIVE

Let me just say in conclusion, Mr. Chairman, that while I think the fact that our Republican friends on the committee by and large are prepared to support this legislation, which makes possible the kind of bipartisan support which led to the Marshall Plan and the legislation which implemented the Truman Doctrine four decades ago, I find it puzzling, if not pathetic, that the Administration itself apparently has no position on this legislation.

This seems to be an emerging pattern in the Administration's foreign policy. It was neither for nor against the coup in Panama. It is neither for nor against Mr. Mubarak's efforts to resuscitate the peace process in the Middle East. It is neither for or against this effort to make democracy possible and enhance its prospects for survival in Poland.

I can only express the hope, Mr. Chairman, that as we move forward with this legislation, the Administration recognizes that we not only have an historic opportunity but an historic obligation here which requires support for this legislation.

Mr. LEACH. Will the gentleman yield?

Mr. SOLARZ. Yes.

#### ADMINISTRATION'S ROLE IN TRANSFORMATION OF EASTERN EUROPE

Mr. LEACH. I think in fairness to the record, it ought to be stated that the Administration has proposed a major bill and a major initiative. It is not precisely in the framework of this bill, but the Administration stepped forth before the United States Congress responded.

This bill is in response to the Administration approach. I think this is an improved approach. I am supportive of this bill. But I do not think it is fair to characterize this Administration as standing on the sidelines as this historic event was occurring. This Administration has helped lead the peaceful transformation of Eastern Europe.

The President of the United States visited Eastern Europe barely after taking office. He has identified with self-determination, he has identified with the new movements that are occurring there in a very courageous and straightforward way. I hope that the spirit in which this goes forward is bi-institutional as well as bipartisan.

Chairman FASCELL. Mr. Smith?

#### ECONOMIC PLANNING UNDERWAY IN POLAND

Mr. SMITH of Florida. Thank you, Mr. Chairman.

Mr. Chairman, I want to commend you and Mr. Broomfield and, of course, the chairman of our subcommittee, for being so intimately involved with bringing this matter to the Floor, and for pushing it as rapidly as possible.

I had the pleasure of being with you this past few days at the meeting of the North Atlantic Assembly. I think it is of some merit for the committee to know that at the political committee at the Assembly this year, we had two members who were observers from Poland and two members who were observers from Hungary. It was fascinating to hear their ideas about economics in their own countries, and their ideas about the future of their countries, politically, socially, culturally, etc.

I have to relate a story. When the Polish members or observers finished their presentations, one was from the Communist Party and one was from Solidarity. We were allowed to ask some questions.

I asked them about various economic theories and how they thought they were going to spend the money that was going to be granted by a number of countries, including the United States.

They already have an economic plan, which the government has already issued. It is very significant. Mr. Bereuter has already read part of that plan, if not the whole thing, as I myself have.

When we asked about the need, they were very specific about the problem they have. Just the other day, at the time we were discussing this with them, the Solidarity government issued a call for all the people to understand that in the next six months or so, there was going to be a significant amount of food storages, clothing and heating oil shortages, and other kinds of problems, including high inflation rates and the like.

So, this is very definitely needed. Mr. Chairman, I want to tell you that what was truly amazing were two things that I noticed. One was in response to questions about when they anticipated the Soviets would be leaving Polish soil, the Communist Party member said, "We anticipate and want them to leave as quickly as possible."

The Solidarity member said, "We have not really gotten a policy on that yet, and we are not commenting." That is an interesting shift, at least in emphasis if not in actual policy.

#### U.S. ROLE IN PROMOTING CHANGE IN HUNGARY

The second thing was, Mr. Chairman, the Hungarian delegation that was there was saying the kinds of things that we have come to expect from the Hungarians over the last few months. In retrospect having been there last year as part of our delegation to the Assembly and having seen the progress that they have made from that time when we were talking to them and they were telling us that they were hoping that they could implement some small amount of changes to where they are now, and comparing that to how they are talking now, to the way the Communist Party has in fact basically torn down its machinery and turned itself into another party entirely, I think that the United States should be very proud of the role that it has played then, and now with this kind of aid.

I think that what is happening is incredibly unique and probably something that we cannot even appreciate living through it, but more importantly, it shows actually that when the dedication is there, the opening is there, and there are some countries who are

willing to speak out for the people who want to change the system in their country. Democracy really can triumph.

I think helping them, along with the virtue of this bill, is going to be one of the best things we can do in the long run for peace in the world. Thank you, Mr. Chairman.

Chairman FASCELL. Mr. Lantos?

#### ASYMMETRY IN ASSISTANCE TO POLAND AND HUNGARY

Mr. LANTOS. Thank you very much, Mr. Chairman.

I will just take a moment of the committee's time to bring one small matter to the attention of our group. First, I would like to commend you and Chairman Hamilton and Mr. Broomfield, Mr. Gilman and all others who have played such a key role in this legislation.

We have an historic opportunity, and I think it is critical that we take full advantage of it. I think it is important to realize that what we do here will have ramifications on more than just Hungary. It is watched very closely in Czechoslovakia, Bulgaria, and other countries of Eastern Europe and Central Europe.

I know there is a certain degree of asymmetry in the treatment that this bill gives to Poland and Hungary. I fully understand that asymmetry along most lines. In the first place, Poland has a much larger population.

In the second place, as has been pointed out ad nauseum, Poland economically is in far worse condition than Hungary and it is appropriate that our legislation consider that. There is one item, however, Mr. Chairman, that I would like to raise a question about. That is section 403 relating to science and technology.

My understanding is that the Administration has just concluded a science and technology agreement with Hungary, or is about to, and I would suspect it would make sense for all of us to treat the science and technology aspects of this bill on an equitable basis.

So, I wonder if I might inquire of Chairman Hamilton as to what his views are on this subject.

#### INCLUDING HUNGARY IN SCIENCE AND TECHNOLOGY EXCHANGE

Mr. HAMILTON. First, I think all members are aware of the extraordinary interest that the gentleman from California has in this bill, as well as this region of the world. We are grateful to him for his leadership, not just in recent weeks, but over a period of months.

He points out accurately one of the three provisions of the bill which apply only to Poland and not to Hungary. The three provisions are section 304, relating to trade credit insurance program, that applies only to Poland. It does not apply to Hungary, because Hungary is already eligible there. So it is not necessary to put them in.

Section 503 relates to medical supplies and training. That is a special program which has been in effect in Poland for several years.

The section that the gentleman refers to, 403, relates to science and technology. That, too, as the bill is drafted at the moment, applies only to Poland. The reason for that was that the science and



technology agreement which the gentleman referred to was only signed, I think, very recently.

Mr. LANTOS. That is correct.

Mr. HAMILTON. When this bill was being drafted, that agreement was not yet in place. I think the gentleman from California makes a good point. It seems to me Hungary should be included here.

My understanding with respect to the pay-out rate here is the Administration is planning to spend \$1 million a year in Hungary. As you can see, there is a greater authorization than that, so putting Hungary into section 403, I think, is quite appropriate, and adjusting any authorization that needs to be done is also appropriate.

Mr. LANTOS. I am very grateful to Chairman Hamilton. With that in mind, Mr. Chairman, may I suggest that section 403 be amended to allow for a \$1 million authorization for Hungary specifically in each of the years under consideration?

Chairman FASCELL. If the gentleman will yield, let me say, it will be the Chair's purpose to take this up by title. When we get to Title IV, the gentleman can make that request. We have a vote on the Floor now.

I have one further speaker here. Mr. Roth?

#### BILL LACKS CLEAR OBJECTIVES AND IMPLEMENTATION STRATEGY

Mr. ROTH. Thank you, Mr. Chairman.

We are all elated by the developments in Eastern Europe, especially Hungary and Poland. But I don't think we want to deceive ourselves by saying this is because of some American aid. This is because the people in Poland and Hungary have determined this destiny.

It is not easy to question the chairman or the ranking member or the Administration, but I think it is important for us to take a look at the specifics of this bill. We have had a lot of platitudes, but we have not looked at the numbers of this bill.

This bill is a great deal of legislative stewage composed of bits and pieces tossed together into a pot, stirred around and served up with a generous garnish of platitudes without any idea of how our aid dollars will nourish the transformation of Hungary and Poland.

It is a hodgepodge, lots of money authorized, \$635 million, but no grand design. There are no clear objectives and no well-laid out strategy to accomplish them. It is as though somebody thought we could solve the problems of Hungary and Poland by throwing more money around.

Let me give a few examples of what I mean. The bill authorized \$6 million to send Peace Corps volunteers to Hungary and Poland. Does this make a lot of sense? Are American youngsters out of college going to teach farming to the Poles and Hungarians?

Mr. LANTOS. Will the gentleman yield?

Mr. ROTH. I will be happy to after I finish my statement.

I spent a week in Hungary in May. I think their farmers could teach many things to us. Sending Peace Corps workers to these countries is really an insult to the people we are trying to help.

\$10 million is authorized for technical training to help Poles and Hungarians set up private banking institutions. Hungary already

has a private banking system and people who are very sophisticated in banking.

As far as helping labor organizations, excuse me, but the Poles have proven with Solidarity that they know a great deal about labor organizations themselves.

\$12 million will go for educational assistance. How is this going to promote fundamental structural reform in Hungary and Poland? I know \$12 million will go for something called promoting democracy. This is superfluous. Poland and Hungary have moved from the direction of a totalitarian government to the point where they are on the verge of achieving multi-party democracy.

They have done this without receiving \$1 of foreign aid from us for this purpose. The fastest way to sour a relationship many times is to throw money at it without having an idea what the dollars are going to do.

We are going to provide another \$10 million for environmental protection. I would ask if we are going to do a study in Krakow on water quality? How about the problems we have in Boston here, and some other parts of the country?

\$200 million is authorized for two nonprofit organizations called Enterprise Funds. How will these monies be disbursed? There is nothing in this bill that tells us how this money is going to be disbursed or spent. There is no strategy here.

There is \$635 million. We are going to throw a little here, a little there, and a little over here to solve these problems. I see how interested the committee is in how much money is being spent. I have come to the realization that all you have to do if there is a problem is to throw money at it.

Mr. Chairman, I appreciate that at least you stayed here long enough to listen.

Chairman FASCELL. Toby, don't be overconfident. I would have been gone, too. But there is a vote on on the House floor. We are about to run out of time. We will take a short recess to make that vote, and come back. That is one of the reasons the members left. The other reason, I will say to the gentleman from Wisconsin, is that they figured out when you started out that you were not really too happy with this bill anyway.

[Recess.]

Chairman FASCELL. The committee will come to order.

Mr. ROTH. Mr. Chairman, I just want to say this. So many Members asked me to repeat my statement.

I told them they would have to read it in the record.

#### PEACE CORPS IN HUNGARY WILL TEACH ENGLISH

Chairman FASCELL. You are a gentleman and a scholar.

Mr. Lantos, we better get on with this. We will let you wrap it up so we can get on with the bill.

Mr. LANTOS. I will pass.

Chairman FASCELL. No, go ahead. I already recognized you before we recessed.

Mr. LANTOS. I just wanted to mention to my good friend from Wisconsin that the Peace Corps will not teach the folks how to engage in farming. They know that very well.

The Peace Corps will be used exclusively for teaching English in the countryside which they desperately need and ask for. I merely wanted to bring this to my friend's attention.

# TITLE I

Chairman FASCELL. I thank the gentleman for making that point. Now let me state, without objection, we will consider the legislation pending by titles. The clerk will report Title I.

Mr. INGRAM. Title I.

Chairman FASCELL. That is enough. Are there any amendments to Title I?

## LEACH AMENDMENT TO SECTION 101—WAIVING CARGO PREFERENCE REQUIREMENTS

Mr. LEACH. I have an amendment at the desk.

Chairman FASCELL. Mr. Leach has an amendment.

Mr. LEACH. Section 101.

Chairman FASCELL. Section 101. The clerk will report the Leach amendment.

Mr. INGRAM. Amendment to H.R. 3402, add the following at the end of Section 101.

Chairman FASCELL. Without objection further reading of the amendment will be dispensed with, printed in the record and open for amendment.

[The amendment follows:]

[Oct. 11, 1989]

## AMENDMENT TO H.R. 3402 OFFERED BY MR. LEACH

Add the following at the end of section 101:

(c) CARGO PREFERENCE REQUIREMENTS.—The cargo preference requirements of title IX of the Merchant Marine Act, 1936 (46 U.S.C. app. 1241 and the following) shall not apply with respect to the agricultural commodities made available for Poland pursuant to this section.

The Chair recognizes the gentleman from Iowa for five minutes in support of his amendment.

Mr. LEACH. Mr. Chairman, I don't intend to take the full five minutes. All of us understand the divisive nature of cargo preference requirements. But I want you to understand the nature of it in this context. What applying cargo preference to this bill does is to imply less food will be brought from the United States, and that less food will be provided to the people of Poland.

We are looking at a differential in shipping rates between three and a half and five fold. Industry estimates may be high, but they seem to be unchallenged.

As much as one third of the food aid to Poland under this bill will not be delivered because of cargo preference. So all this particular amendment does is that with respect to Poland, it waives the requirement that cargo preference apply.

I would like to address two other aspects of this. I would seriously ask people that have been on the other side of this issue to review them carefully.

Historically, cargo preference has aligned big unions and big shipping against farmers and governments—our own as well as recipients. This time we are pitting an established democratic union against a struggling union in a one-month old aspiring democratic framework.

We are pitting union against union, our maritime unions against Solidarity's. I would urge in the strongest possible terms that we give the benefit of the doubt in this particular circumstance to needy people rather than a powerful American interest.

Finally, I would say in terms of precedent, we have exempted Israel from the cargo preference provisions of U.S. law. I would suggest that if we can make an exception for an important ally like Israel, we can certainly—taking notice of the views of the distinguished gentleman from New York, Mr. Solarz, who observed that this is one of the great historical movements of our times—assist this movement to the maximum extent possible, leveraging every conceivable American dollar by removing the cargo preference requirements so that fully one third more food can go to Poland.

I would urge this committee to err on the side of humanitarianism, err on the side of historical sweep in history and not err on the side of too great a sensitivity toward several powerful Americans—

#### NO CARGO PREFERENCE EXEMPTION FOR ISRAEL

Mr. BERMAN. Would the gentleman yield?

Mr. LEACH. Yes.

Mr. BERMAN. I think it is fair to point out that with respect to P.L. 480 shipments, there is no exception for Israel. The foreign assistance bill which passed the House has a number of different exemptions and special treatment, but that is not in any sense a law.

To the extent the existing law has a special provision for Israel, it is because of the side letter where Israel agrees to make certain shipments. The arguments may be very good for this amendment, but I don't think it is fair to whipsaw on that basis.

Mr. LEACH. I appreciate the gentleman's clarification, although Israel is not a major recipient of P.L. 480 assistance. I think the gentleman is valid in his observations.

To the extent I have slanted the argument, I apologize to the gentleman.

Chairman FASCELL. Mr. Smith?

#### ERROR IN ASSESSING IMPACT OF CARGO PREFERENCE REQUIREMENT

Mr. SMITH of Florida. I suppose once again we are going to go into that rather thorny thicket. First of all, let me say if we were to pass anything which would in effect be a waiver of the cargo preference statutes as they exist, we would lose control of this bill and it would go over to Merchant Marine and Fisheries. I am almost certain of that. That is number one.

Number two, it seems to me that a lot has been made in various arguments presented here and elsewhere of an article that appeared in the Boston Globe which contained such an incredible amount of factual and statistical errors that the U.S. Department of Transportation Maritime Administration had to, in order to

quell what was somewhat of a continuing rumor, write to the editor of the Boston Globe to take exception to, and to challenge statistically, the article which had appeared.

Let me just say that all of the figures which were heretofore quoted by Members of this panel previously last week when we discussed this issue in another context were incorrect.

There were no such figures as the ones that were in the Boston Globe. The Maritime Administration of the U.S. Department of Transportation says so in this letter dated October 6, signed by Robert S. Silberman, the Deputy Administrator, addressed to the editor of the Boston Globe, Mr. Driscoll.

In this letter we have a belief that the Department of Maritime Administration in the Department of Transportation is speaking of this Administration.

They say they do not want a waiver of cargo preference in this case.

Mr. Chairman, I would like to enter this letter into the record.

Mr. LEACH. Would the gentleman yield?

Mr. SMITH of Florida. As soon as I am finished, I would be happy to.

Chairman FASCELL. He is trying to find out who sent you the letter.

Mr. SMITH of Florida. It is a copy that was sent to the Boston Globe.

Chairman FASCELL. By?

Mr. SMITH of Florida. Mr. Silver of the Department of Transportation to the Boston Globe refuting the article and the statistics contained therein.

Chairman FASCELL. Without objection, the letter will be made a part of the record.

[The information follows:]



U.S. DEPARTMENT  
OF TRANSPORTATION  
MARITIME  
ADMINISTRATION

Deputy Administrator

400 Seventh St., S.W.  
Washington, D.C. 20003

08 OCT 1989

John S. Driscoll, Editor  
The Boston Globe  
138 Morrissey Boulevard  
Boston, MA 02125

Dear Mr. Driscoll:

A recent Boston Globe story creates the misguided impression that shipping emergency food supplies to Poland on American-flag ships involves a disproportionate amount of the funds intended for emergency relief. In your story, the costs of using American ships and seafarers, whose use is required by law, by the way, were grossly overstated. Just as significantly, the importance of maintaining a cadre of American vessels with trained American citizens crews was very much understated.

American merchant vessels and their crews have been vital to every military conflict in which this nation has been involved. As President Bush has stated, "In this century, their support has been crucial--and their sacrifices heroic--in many armed conflicts." Even today, military strategists estimate that in any overseas hostilities, 97 percent of the materials needed to supply our troops would be transported overseas by ship. It is vital that we have the ships and seafarers we can count on in military emergencies.

One method of supporting American ships and American seafarers is to provide them with the right to carry a portion of the cargoes the Federal Government creates or generates. For food assistance programs, the portion reserved by law for American merchant ships is 75 percent. Every relief program of the United States, starting with the Lend-Lease program of the 1930's and including the Marshall Plan and the Japan Demobilization plan effort after World War II, has had a U.S.-flag shipping requirement as an integral component of the program. This has been done precisely because of the long recognition by U.S. Government policy makers of the vital importance of a U.S.-flag merchant marine.

To date, the Agency for International Development has made only one request for offers to carry grain cargoes to Poland. The U.S.-flag vessel rate to carry the cargo was \$84.98 per ton. The only Polish ship made an offer of \$60 per ton. This is well above the \$15 erroneously quoted in your article. Indeed, the lowest offer was from a Liberian vessel, at \$49.92 per ton, still well above your figures.

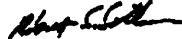
FAX to Jim Patten  
R. S. A. & J. S.

2

In addition, this initial shipment of food aid to Poland was arranged hastily in order to respond to Polish needs. With normal advanced planning, a greater volume of the total projected relief cargo would have been shipped at one time. Larger, more economical vessels could have been used, resulting in enormous reductions in the per ton rate for a U.S.-flag vessel. For example, if 50,000 metric tons of sorghum were shipped on a U.S.-flag vessel under competitive terms, we estimate that the freight rate would have been less than \$34 per ton.

Obviously, the overall costs of shipping the cargoes to Poland, and the difference between using American and Polish vessels, are much lower than indicated in your story. Perhaps a state-controlled fleet—one very much farther removed from the free-market ideal than our own—would be willing to carry such cargoes at rates that would not even cover their costs. If we allowed them to do so, it would be at the expense of American jobs and of American security interests.

Sincerely,



Robert S. Silberman  
Deputy Maritime Administrator

Mr. SMITH of Florida. We don't want to perpetuate this continual battle. If we are going to waive cargo preference, let's take all the gloves off. Why buy American wheat? It is cheaper to buy Argentinian wheat than it is to send American wheat. The taxpayers have already paid for that wheat.

In order to return stores their former size, they will have to go out on the market and buy it again at a higher price, higher than we can buy wheat from Argentina. So let's just cut out the American wheat. You won't find opponents awaiting cargo preference going around asking that the farmers take a shot, and be cut out of this process.

Somehow, for some reason there are still people who think the agricultural interests ought to have the only claim in terms of the whole process of feeding the rest of the world, and it is just not so. There are other parts of that food chain that come into play.

There is no reason to further divide this rift between food and the delivery of food. That is wrong, absolutely wrong. We are doing it again if we waive cargo preference to be. Perhaps we should buy foreign corn, also less costly. But nobody is calling for that.

Why are they asking for cargo preference to be waived on American bottoms?

Besides, Mr. Chairman, I would like this scenario in people's minds. American food aid comes steaming into Polish harbors on ships with Liberian flags. That is wrong.

This is American aid coming from American people, paid for by American people only to happy to share it with the people of Poland who need it right now. There is no reason that American bottoms should not carry this.

The notion that one third less food is going to be sent because of the difference in prices is totally refuted by the letter which will be in the record.

I would urge my colleagues not to break this law which has been in the statutes for many years. And remember, aid to Poland is a unique and rushed kind of aid. We are not in the process in this government of attempting to get significantly reduced prices on the bids.

No bid was \$15. The lowest bid, according to this letter, was \$50 by a Liberian freighter. The Polish freighter was well in excess of that, only somewhat below the American cost.

I would urge my colleagues not to do this now. This is something that will have a major impact not only in the agricultural field, but in the cargo field, something that the Poles want, something that we should be sending them proudly waiving American flags.

I believe in the future as we send more aid and more time is available for the purpose of getting better bids and using more efficient ships which are now currently busy because of existing contracts, we can bring the prices down significantly. I would urge my colleagues not to entertain the motion of the gentleman from Iowa.

Although I might add for the gentleman from Iowa, I believe this is not unusual, but it is something that surprises me because he is such a thoughtful and important Member of this committee.

I am sorry that we are on the opposite side of this issue.

Chairman FASCELL. Mr. Solarz?



## ROLE OF AMERICAN LABOR IN SUPPORT OF SOLIDARITY

Mr. SOLARZ. Thank you very much, Mr. Chairman. I will be very brief. I think this amendment is obviously a very well intentioned amendment.

The gentleman from Iowa makes a very powerful argument that given the nature of the emergency situation in Poland, we want to do everything we can to maximize the benefits of the aid we provide them.

We are all familiar, I think, with the arguments for or against cargo preference. This has been debated vigorously before the committee on many occasions in the past. I want to suggest, however, that there are two considerations which militate against the adoption of this amendment, considerations which are perhaps *sui generis* to this particular proposal at this particular time.

The first is that if there is any one institution in our country which helped to keep hope alive in Poland after the establishment of martial law in 1982, if there was any one institution in American life which was a life line to Solidarnosc in Poland, it was the American labor movement and the AFL-CIO and Lane Kirkland.

I suspect this legislation is probably their major foreign policy priority in the current session of Congress. My sense is that they would find the inclusion of a cargo preference waiver amendment like this in this particular bill to be especially egregious and unacceptable, and very painful.

I think it would, therefore, be unfortunate and maybe even in a way unseemly to include this amendment in this particular bill.

The second consideration I would ask my colleagues to consider is this. My guess is that if we stopped and took the time to ask the leaders of Solidarnosc in Poland, whom we are trying to help with this bill, how they feel about this amendment, I have little doubt but that they would say as an expression of solidarity with the American labor movement—which for so many years expressed its solidarity with the independent labor movement in Poland—that while they very much want all the help they can get from the United States, they don't want to get it at the expense of the American labor movement.

My guess is that, out of deference to the views and interest of the labor movement here that has done so much to help them there, they would probably decline the incremental additional benefits that they would receive if this amendment were adopted.

So for the labor movement here and for the labor movement in Poland, I would hope on this particular bill we could forego adopting this amendment.

Chairman FASCELL. Mr. Lantos?

Mr. LANTOS. Mr. Chairman, I'd just take a moment of time. There is no one in this body I have higher regard for than my friend from Iowa, but I do believe that on this issue he is not on the right side. My friend from New York, Mr. Solarz, basically stated the point I wanted to make.

The American labor movement in large measure is responsible for the fact that there is a free Poland today. To slap the American labor movement in the face with a cargo preference waiver at this moment would be, in my view, singularly inappropriate. I would

also like to add that my colleague from Iowa very correctly called a few minutes ago not only for bipartisan support for this legislation, but also for bi-institutional support, support by the Administration and the Congress. It would be a very unseemly act for us to evoke opposition from the labor movement when, in fact, the labor movement has been in the forefront of aid to Poland.

So I strongly urge my colleagues to reject this amendment.

#### VOTE ON LEACH AMENDMENT

Chairman FASCELL. The question is on agreeing to the amendment. All those in favor, signify by saying aye.

All those opposed, no.

The noes appear to have it. The noes have it, and the amendment is not agreed to.

Are there further amendments to Title I?

#### EXCHANGE STABILIZATION FUND AS DISCRETIONARY OPTION

Mr. BEREUTER. Mr. Chairman.

Chairman FASCELL. Mr. Bereuter.

Mr. BEREUTER. I move to strike the last word for a brief bit of legislative history.

Chairman FASCELL. The gentleman is recognized.

Mr. BEREUTER. Mr. Chairman, with respect to the Section 101(a)(1), which relates to the Exchange Stabilization Fund, which is an element in the armor of the Secretary of the Treasury, I appreciate the commendation that has been made to the earlier objections from the Treasury.

The provisions as now written are discretionary, not mandatory. The Exchange Stabilization Fund can be used to provide loans for six months duration or for longer periods with a waiver from the President.

They are used to provide bridge loans to foreign governments and to set the exchange rate of the dollar. I think it would be a mistake to mandate the use of the Exchange Stabilization Fund, but it is one option and it is discretionary. I thought that ought to be on the record.

This would then solve the earlier objections of the Administration.

Chairman FASCELL. Are there further amendments or discussion with regard to Title I?

I understand Mr. Studds has an amendment in the box, but the amendment, as I understand it, deals with a matter within the jurisdiction of the Agriculture Committee, so we can't consider it here, in any event. He is on the floor right now on another matter.

The Clerk will designate the next title.

#### TITLE II

Mr. INGRAM. Title II.

Chairman FASCELL. Are there any amendments to Title II?

#### GEJDENSON AMENDMENT TO SECTION 204—PEACE CORPS PROGRAMS

Mr. GEJDENSON. Mr. Chairman.

Chairman FASCELL. Mr. Gejdenson.

Mr. GEJDENSON. I have a brief amendment at the desk.

Chairman FASCELL. The Clerk will distribute the Gejdenson amendment. The chief of staff will report it.

Mr. BRADY. Amendment offered by Mr. Gejdenson. Section 204 relating to Peace Corps programs.

[The amendment follows:]

[Oct. 10, 1989]

AMENDMENT TO H.R. 3402 OFFERED BY MR. GEJDENSON

In section 204 (relating to Peace Corps program), before the period at the end of the second sentence, insert the following: ", using the Associate Volunteer Program to the extent practicable."

Chairman FASCELL. Without objection, further reading of the amendment will be dispensed with, printed in the record in full, open for the amendment and the gentleman will be recognized in support of his amendment.

Mr. GEJDENSON. This amendment simply provides that the Peace Corps may use, if it chooses to, the Associate Volunteer Program for Hungary and Poland. It was a concept brought to my attention by Mrs. Kennelly.

There are a large number of Polish and Hungarian Americans and others who are in careers who might not be able to take the full two years in a normal Peace Corps program, but could take advantage of this existing program, the Associate Volunteer Program.

It doesn't mandate action by the Peace Corps. It simply allows the Peace Corps to utilize this program for Hungary and Poland. I would urge its adoption.

Chairman FASCELL. Is there—will the gentleman yield just for one question?

Mr. GEJDENSON. I would be happy to yield to my chairman.

Chairman FASCELL. Under existing law, the Peace Corps has the authority to do this, does it not? You don't need to legislate. Your language simply is to encourage?

Mr. GEJDENSON. It encourages the Peace Corps to utilize this program in the case of Hungary and Poland.

Chairman FASCELL. Can legislative counsel tell me if the authority exists in law to do what the gentleman from Connecticut suggests?

Mr. MOHRMAN. I believe it does. I don't know if there are any representatives from the Peace Corps here to confirm that. My recollection of the Peace Corps Act is it is quite general in its authorities.

Mr. GEJDENSON. They currently have the authority to use it for Poland and Hungary. Including the language gives them a little guidance and makes it more likely the program will be utilized there where there is a great opportunity to do so.

It does no damage to the Peace Corps. I think it could be helpful for speedy utilization of the program.

Chairman FASCELL. Is there a representative of the Peace Corps here? Apparently not.

Is there any further discussion with regard to the pending amendment?

Mr. Weiss.

#### ENCOURAGING EFFICIENT ALLOCATION OF PEACE CORPS RESOURCES

Mr. WEISS. Not really addressing the specifics of the amendment, but the basic subject. In the course of hearings by the Subcommittee on Human Rights sometime last week, we had a very expert panel. One of the things that was pointed out was that the President had suggested sending, I think, 60 Peace Corps volunteers to Hungary to teach English.

This former ambassador pointed out that there are something like 6,000 English language teachers in Hungary, many who are unemployed at this point. Without wanting to micro-manage the situation, I would hope that when the Peace Corps makes the determination as to what kind of areas to devote its attention to, that it will not, in fact, engage in unnecessary actions or redundant actions or counterproductive actions.

#### VOTE ON GEJDENSON AMENDMENT

Chairman FASCELL. I thank the gentleman from his comment. Is there any further discussion?

If not, the question is on the amendment of the gentleman from Connecticut.

All those in favor, signify by saying aye.

All those opposed, no.

The ayes have it. The amendment is agreed to.

Are there further amendments to Title II?

#### LEACH AMENDMENT TO SECTION 201—FUNDING FOR CREDIT UNION MOVEMENT

Mr. LEACH. Mr. Chairman, I have an amendment at the desk.

Chairman FASCELL. Mr. Leach has an amendment to Title II. The clerk will distribute the amendment.

Mr. BRADY. Section 201(d)(3)—

Mr. LEACH. I ask unanimous consent—

Chairman FASCELL. Without objection, further reading of the amendment will be dispensed with, printed in the record in full, and open for amendment.

[The amendment follows:]

HR3402A02

[October 11, 1989]  
AMENDMENT TO THE FASCELL AMENDMENT TO H.R. 3402  
OFFERED BY MR. LEACH

In section 201(d)(3), before the period insert the following: `` , including at least one representative of United States credit unions ``.

Add the following new subsections to section 201:

(c) SUPPORT FOR INDIGENOUS CREDIT UNIONS.--

(1) POLISH-AMERICAN ENTERPRISE FUND.--The Polish-American Enterprise Fund shall use not less than \$8,000,000 of the funds made available to it pursuant to this section for technical and other assistance to support the development of indigenous credit unions in Poland.

(2) HUNGARIAN-AMERICAN ENTERPRISE FUND.--The Hungarian-American Enterprise Fund shall use not less than \$2,000,000 of the funds made available to it pursuant to this section for technical and other assistance to support the development of indigenous credit unions in Hungary.

(p) DEFINITION OF CREDIT UNION.--As used in this section and section 206, the term ``credit union`` means a member-

HR3402A02

2

- 1 owned, nonprofit, cooperative depository institution--  
2 (1) which is formed to permit individuals in the  
3 field of membership specified in such institution's  
4 charter to pool their savings, lend the savings to one  
5 another, and own the organization where they save,  
6 borrow, and obtain related financial services; and  
7 (2) whose members are united by a common bond and  
8 democratically operate the institution.

After section 205, insert the following:

9 SEC. 206. UNITED STATES POLICY OF PRIVATE FINANCIAL SUPPORT  
10 FOR POLISH AND HUNGARIAN CREDIT UNIONS.

11 (a) IN GENERAL.--In order to facilitate the development  
12 of indigenous credit unions in Poland and Hungary, it is the  
13 policy of the United States that United States citizens,  
14 financial institutions (including Federal and State chartered  
15 credit unions), and other persons may make contributions and  
16 loans to, make capital deposits in, and provide other forms  
17 of financial and technical assistance to credit unions in  
18 Poland and Hungary, to the extent that, in the case of  
19 Federally insured depository institutions, such assistance is  
20 prudent and not inconsistent with safe and sound banking  
21 practice.

22 (b) AMENDMENT TO FEDERAL CREDIT UNION ACT.--Section 107  
23 of the Federal Credit Union Act (12 U.S.C. 1757) is amended

HR3402A02

3

1 by redesignating paragraph (16) as paragraph (17) and by  
2 inserting after paragraph (15) the following new paragraph:  
3       “(16) subject to such regulations as the Board may  
4       prescribe, to make contributions and loans to, make  
5       capital deposits in, and provide other forms of financial  
6       and technical assistance to credit unions in Poland and  
7       Hungary; and”.

The gentleman from Iowa is recognized in support of his amendment.

Mr. LEACH. I am hopeful this amendment will not prove to be as divisive.

Many of the issues in this bill are the province of the House Banking Committee, as well. The Banking Committee may well waive jurisdiction.

This amendment has been developed with the strong input of Marcy Kaptur of Ohio and Frank Annunzio of Illinois. It relates to credit unions and relates to earmarking part of the Enterprise Funds being developed for Hungary and Poland, in this case specifically for the credit union movement.

If you take the country of Poland there is an estimated \$4 to \$6 billion in savings in mattresses that people do not want to put in the banking system because the banking system is: (A) controlled by the government, and (B) it might be used for not only choices of types of enterprises that the people wouldn't prefer, but to pay back other kinds of debt obligations that the people didn't voluntarily assume in the first place.

There is a 150-year-old credit union movement in Poland and one almost as old in Hungary, although both are not well developed today and have been partially brought into disrepute under the current communist system. What this amendment has done—and it has been developed with the input of the major national credit union associations, as well as amended by our credit union supervisory people—is that it earmarks \$8 million for Poland and \$2 million for Hungary to help in developing an indigenous credit union movement.

Basically speaking, the Enterprise Funds being developed represent a governmental effort to have investment banking funds applied to Poland and Hungary. What this does is go beyond that and suggests that we ought to be spurring the development of private savings, private savings that can be leveraged. There is nothing leveragable about private savings in mattresses.

This is designed to be a self-help kind of approach to both of these countries. I would hope it meets with the support of the committee. I must say during questioning of administration witnesses, it has received a sympathetic viewing in terms of being an interesting idea that ought to be pursued.

On the other hand, the administration says formally it cannot support earmarking of funds and so in a formal sense is not behind this amendment. I do believe it is the type of thing this committee can properly proffer to the administration and it probably could be well-received in the context of the full bill.

#### QUESTIONING NEED FOR EARMARK

Chairman FASCELL. Well, I thank the gentleman for that comment. As one who has struggled with the question of earmarking for a lot of reasons, this is just one more earmark, and I don't really understand your reasoning.

As far as credit unions are concerned, that is fine. That is in the bill now. Why it is essential to go further than that?



But aside from that, this matter is also within the jurisdiction of the Banking Committee. I don't know how they feel. But I hate to get into a dispute on the question of earmarking what is really relatively a small amount of funds when the entire matter is included as a general purpose in the bill. I just think we are going too far with this amendment myself.

Does somebody from the administration want to say whether they are for or against this amendment? Keep it short and to the point.

Mr. JOHNSON. Ralph Johnson of the European Bureau of the State Department. We would prefer not to see earmarks. We sympathize with the objective. The problem we see is if we begin earmarking parts of the enterprise fund, we will strip away all the flexibility that should be available there.

Mr. LEACH. Will the chairman yield on one point?

Chairman FASCELL. Absolutely.

#### JURISDICTIONAL WAIVER BY BANKING COMMITTEE

Mr. LEACH. As I noted in my introductory comment, this amendment has the strong support of Frank Annunzio, who has the subcommittee jurisdiction within the Banking Committee of this bill, as well as many other members of the Banking Committee that frankly in all likelihood are going to give up jurisdiction over this bill.

As a fellow member of the Banking Committee, I would say it is a way to tip one's hat to the committee and not to declare war.

I would just like that relationship——

Chairman FASCELL. I appreciate that. The gentleman is correct. As far as I know, the Banking Committee will waive jurisdiction on the bill. That is why I didn't get into the question as to whether or not we were infringing on their jurisdiction with your amendment.

#### SUPPORT OF UNITED STATES AND POLISH CREDIT UNION MOVEMENTS

Mr. LEACH. A second point I would like to raise relates to the way the credit union references are based in the bill today. Basically, certain technical assistance can go through a world association of credit unions. What this does is authorize the American credit union movement to give direct assistance, as well as earmark certain funds of the Treasury for the development of indigenous credit unions.

I must say that Solidarity has been in contact with our credit union movement. Although I cannot speak for Solidarity, I understand they are supportive. This is strongly supported by the United States credit union movement, as well.

Frankly, this type of approach appears to have the support of all parties to the issue.

Chairman FASCELL. Is there further discussion on the Leach amendment?

Mr. SMITH of Florida. Mr. Chairman?

Chairman FASCELL. Mr. Smith?

## SUPPORT FOR LEACH AMENDMENT AS STATEMENT OF POLICY

Mr. SMITH of Florida. If the maker of the amendment would take to the microphone, I would like to ask him a question.

Mr. LEACH. Yes, of course.

Mr. SMITH of Florida. Is it possible, Mr. Leach, that Section 206 become the heart of the amendment, which is a policy statement rather than the earmarking?

A number of us, I believe, are going to vote against it. But I would like to have at least a portion of this, if it is amenable to being, in fact, passed.

I don't think there is anything wrong with this statement in Section 206. I think that would be helpful for the purpose of, like we did with the statement Mr. Gejdenson just—

Mr. LEACH. I appreciate the gentleman. Let me just say if the gentleman wants to divide the vote, that is acceptable to this Member. But I would just emphasize the heart of the amendment is not Section 206.

On that basis, I don't think I can tell the gentleman that I would be very happy with a defeat on what I consider to be the brunt of the amendment. But obviously, there are differences of opinion.

Let me just emphasize to Members of this body, this amendment has not been developed in a vacuum. It has got the support of a large number of Americans who are very interested in this particular movement.

I must also stress, because unions were part of the last debate, that the American union movement is strongly behind the credit union movement. So I want to make it very clear that while unionism and credit unions are not exactly synonymous, they are generally in lock step on issues of that nature.

## VOTE ON LEACH AMENDMENT

Chairman FASCELL. Is there any further discussion on the Leach Amendment?

If not, all those in favor will signify by saying aye.

All those opposed, no.

It appears that the noes have it.

Mr. LEACH. I would like a division.

Chairman FASCELL. A show of hands. All those in favor of the Leach amendment, raise your right hand. Leave them raised until counted.

All those opposed raise your right hand. Leave them raised until counted.

Mr. BRADY. On this vote, there were five ayes and 17 nays.

Chairman FASCELL. So the amendment is not agreed to.

Are there further amendments?

## SMITH AMENDMENT—POLICY TOWARD CREDIT UNIONS

Mr. SMITH of Florida. Mr. Chairman?

Chairman FASCELL. Mr. Smith?

Mr. SMITH of Florida. I would offer as an amendment to the bill as a policy statement, Section 206A.

Chairman FASCELL. You are referring to section 206A of the original Leach amendment?

Mr. SMITH of Florida. That is correct. That would be the second section designated Section 206, which is a new section in the bill.

Chairman FASCELL. How far does the gentleman want to go with that? Down to Line 21?

Mr. SMITH of Florida. Yes.

Mr. LEACH. If the gentleman would yield?

Mr. SMITH of Florida. Yes.

Mr. LEACH. If you are going to offer it, I would urge you to offer B as well.

Mr. SMITH of Florida. I would be happy to, if the gentleman would yield—

Mr. LEACH. What B does is give the Federal regulators of credit unions the right to proscribe appropriate rules and regulations. I think it would be imprudent without B.

Mr. SMITH of Florida. Mr. Chairman, with that explanation, I would offer as an amendment—

#### RAISING QUESTION OF JURISDICTION

Chairman FASCELL. Mr. Smith, before you do that, I have a problem. We are talking here about a question of jurisdiction of another committee.

Up until now, we have been working all of this language with all the other committees. I don't know that the Banking Committee has had an opportunity to decide on what they want to do with this particular language.

I don't want to rule that it is out of order. We have had a consensus operation here in order to agree on the legislation. But my best information right now is that we don't have clearance from the Banking Committee on that part of the section.

Mr. SMITH of Florida. What I would suggest then, Mr. Chairman, is to amend my motion to offer Section 206A as language somewhat similar to that offered by Mr. Gejdenson.

Chairman FASCELL. If you want to put it in later once we get clearance—

Mr. LEACH. Would the gentleman yield maybe for explanation, because I think we are getting into hairs you may not want to split, Mr. Chairman.

Chairman FASCELL. Okay.

Mr. LEACH. 206A is part of a bill introduced by myself, Frank Annunzio and Marcy Kaptur. 206B represents an amendment to 206A that was suggested by the Federal regulators that makes eminent good sense. It comes from the administration as a regulatory improvement.

I cannot say that any other Member of the Banking Committee knows about it, but I would be hard pressed to think there would be any objection.

I would say beyond that that I had intended to offer this in Banking Committee, but was given the understanding that the jurisdiction would be waived for this whole bill.

My own instincts, and I must be very serious with the Chairman, is that at the end of this day I will make a strong plea to the Chairman of the House Banking Committee to demand jurisdiction

of this bill, because the Banking Committee's concerns were not taken into evidence.

And as a Member of that committee, my nose is a little out of joint for not being well received on this amendment, not for being turned down. The argumentation has been placed the other way around.

I just want to put you on notice that as a senior Member of the House Banking Committee, I will request Banking Committee consideration of this full bill so that I can have my right to offer a Banking Committee oriented amendment which I consider to be a very important part of the bill.

Chairman FASCELL. I am perfectly willing not only to be sure that the gentleman's nose is not out of joint, but to take his word for what he says. I respect him as a very senior Member of not only the Banking Committee but also the Foreign Affairs Committee.

I am prepared to take the gentleman's word and to accept the amendment. I have no problem with that. I just wanted to raise the question of jurisdiction.

If the gentleman from Iowa is satisfied, I certainly am.

Mr. Smith?

Mr. SMITH of Florida. Mr. Chairman, it seems to me by a general policy statement of Section A of this newly offered section in 206, you have an issue that is really probably generic and not amenable, which is Section B, when you start dealing with Federal banking statutes.

Chairman FASCELL. He says it is okay, and I am willing to take his word for it.

Mr. SMITH of Florida. I will let my motion stand.

Chairman FASCELL. Does everybody understand what the motion is? That is that Section 206A and B, as written in the original Leach amendment, is now being offered by the gentleman from Florida as a separate amendment.

Is there further discussion?

Mr. BOSCO. Mr. Chairman?

Chairman FASCELL. Mr. Bosco?

#### CONCERNS ABOUT REGULATORY OVERSIGHT OF U.S.-INSURED INVESTMENTS

Mr. BOSCO. Mr. Chairman, I don't want to get into the question of jurisdiction, although I have a nagging thought in the back of my mind that maybe this is really outside the jurisdiction of our committee.

We just finished spending \$150 billion plus to bail out part of our own banking system. As I read this provision, it implies that it is appropriate for some of these very same institutions to extend credit and to make loans, give grants to such institutions in Poland and Hungary.

Now we just had evidence that there are no such institutions now in Poland, that they are just starting their own banking system. And all that may be very well and good, but I am not particularly comfortable with encouraging our own system, which is

none too sound financially itself, to be extending themselves into countries that don't even have any such system.

I am not saying this is necessarily a bad idea, but I think it is well outside the purview of this committee and of this piece of legislation to be making value judgments that in effect are probably going to guide our own insurance institutions in this country.

Mr. LEACH. The gentleman has a good point, if you will yield. As far as I am concerned, this whole section can be considered by the Banking committee. We should probably have sequential referral. There are many parts of this bill that are within Banking Committee jurisdiction.

The Banking Committee was prepared to let this go through. There were several Members of the Banking Committee that wanted to offer amendments. This is one approach to doing it in this committee so it isn't referred to the Banking Committee.

The Section B was intended to make sure there is tight regulatory oversight for some of the concerns that the gentleman raised. But I am very happy not to have it considered by this committee at all.

Mr. BOSCO. I would just say, and I don't want to prolong this, but we don't have a long history of tight regulatory oversight in this country to begin with. Though this measure purports to institute that for the first time, I am just saying that since the United States Government insures those deposits, I think we should be very careful how we go about deciding that those deposits should be used.

#### VOTE ON THE SMITH AMENDMENT

Chairman FASCELL. The question is on agreeing to the Smith amendment.

All those in favor signify by saying aye.

All those opposed, no.

Well, I would like to say the Chair was in doubt, but I don't think there is any doubt. The noes have it. The amendment is not agreed to.

Further amendments to Title II?

#### BEREUTER AMENDMENT TO SECTION 203—FARMER TO FARMER PROGRAM

Mr. BEREUTER. I have an amendment at the desk.

Mr. BRADY. Amendment offered by Mr. Bereuter—

[The amendment follows:]

#### AMENDMENT OFFERED BY MR. BEREUTER

Page 16, after line 20, insert the following:

(e) LIMITATION WITH RESPECT TO FARMER-TO-FARMER PROGRAM.—Any activities carried out pursuant to this Act through the Farmer-to-Farmer Program under section 406(a)(1) and (2) of the Agricultural Trade Development and Assistance Act of 1954 shall be funded with funds authorized to be appropriated by this Act and local currencies made available under section 205, and shall not be funded with funds made available pursuant to section 1107 of the Food Security Act of 1985 (7 U.S.C. 1736 note) or a similar, subsequent provision of law.

Chairman FASCELL. Without objection, further reading of the amendment will be dispensed with, and printed in the record in full.

The gentleman from Nebraska is recognized in support of his amendment.

Mr. BEREUTER. Mr. Chairman, we have a program now which is funded by no less than one-tenth of 1 percent of the Food for Peace program. It is called the Farmer to Farmer program. It has been operating about three or four years now very successfully in the lesser developed countries of the world.

This legislation before us today authorizes assistance through the Farmer to Farmer program to farmers in Poland. I have some doubt whether they really need technical assistance, but it is a very popular thing to do.

The problem is not their ability to know what has to be done. The problem is the economic system. Nevertheless, I have no objection to it as long as it is not at the expense of farmers and our programs for farmers in the lesser developed nations of the world, like those in Africa and Latin America.

I simply want to assure that the very limited amount of funds for that program, currently \$1.3 million, is not used for this purpose. Section 203 did authorize the \$10 million to be appropriated for the above purposes, and that is great.

I just simply want to make sure we place a limitation on the administration that they are not using the existing funding, the \$1.3 million or its subsequent amount in future years, the one-tenth of 1 percent.

This amendment makes it clear that to the extent this \$10 million is used for Farmer to Farmer program, it should be funded from this source or from local currencies made available under Section 205 and not specifically from Section 11107, which would be reserved for the lesser developed countries of the world.

I would ask for your approval of the amendment.

#### VOTE ON BEREUTER AMENDMENT

Chairman FASCELL. Further discussion on the Bereuter amendment?

If not, those in favor signify by saying aye.

All those opposed, no?

The ayes have it, and the amendment is agreed to.

Are there further amendments to Title II? If not, the Chief of Staff will designate the next title.

#### TITLE III

Mr. INGRAM. Title III.

Chairman FASCELL. Any amendments to Title III?

If not, the Chief of Staff will designate the next title.

#### TITLE IV

Mr. INGRAM. Title IV.

Chairman FASCELL. Are there any amendments to Title IV?

**LANTOS AMENDMENT TO SECTION 404—SCIENCE AND TECHNOLOGY  
EXCHANGE WITH HUNGARY**

Mr. LANTOS. Mr. Chairman, I have an amendment at the desk. Chairman FASCELL. The Chief of Staff will report the amendment.

Mr. INGRAM. Democracy in Poland and Hungary bill.

Chairman FASCELL. Without objection, further reading of the amendment will be dispensed with, printed in the record in full, and open for amendment.

[The amendment follows:]

**DEMOCRACY IN POLAND AND HUNGARY BILL—ADDITION TO TITLE IV**

**SEC. 404. SCIENCE AND TECHNOLOGY EXCHANGES WITH HUNGARY.**

(a) **AUTHORIZATION OF APPROPRIATIONS.**—There are authorized to be appropriated to the Secretary of State for purposes of implementing the 1989 United States-Hungarian science and technology agreement—

- (1) \$500,000 for fiscal year 1990.
- (2) \$1,000,000 for fiscal year 1991, and
- (3) \$1,000,000 for fiscal year 1992.

(b) **DEFINITION OF AGREEMENT BEING FUNDED.**—For purposes of this section, the term "1989 United States-Hungarian science and technology agreement" refers to the agreement concluded in 1989 by the United States and Hungary, entitled "Agreement Between the Government of the United States of America and the Government of the Hungarian People's Republic for Scientific and Technological Cooperation", together with annexes relating thereto.

The gentleman from California is recognized in support of his amendment.

Mr. LANTOS. Mr. Chairman, I will be very brief. The administration has just concluded the Science and Technology Exchange agreement with Hungary. My amendment provides for a half a million dollars in fiscal year 1990 and \$1 million each in 1991 and 1992 to implement this agreement.

I ask my colleagues to support it.

**VOTE ON LANTOS AMENDMENT**

Chairman FASCELL. Any further discussion?

All those in favor signify by saying aye.

All opposed no.

The ayes have it, and the amendment is agreed to.

Are there further amendments to Title IV?

If not, the Chief of Staff will designate the next title.

**TITLE V**

Mr. INGRAM. Title V.

**REVISION OF SECTION 502—EPA ACTIVITIES**

Chairman FASCELL. I will ask unanimous consent to make a minor change to Section 502D, as requested by the Committee on Public Works, which is going to sign off on this bill.

Currently, the provision in the bill authorizes EPA to use \$10 million over three years for environmental initiatives in Poland and Hungary, three million each year from the Clean Water Act and one million from other funds.

The change that the Committee on Public Works wants is to authorize EPA to use \$10 million over three years, but from any

funds available to EPA rather than designating as we did in the bill.

Is there any objection?

Without objection, it is agreed to.

[The amendment follows.]

[H.R. 3402—Oct. 11, 1989]

#### REVISION OF SECTION 502(d) OF THE FASCELL SUBSTITUTE

(d) FUNDING OF EPA ACTIVITIES.—To carry subsections (a), (b), and (c), there are authorized to be appropriated to the Environmental Protection Agency \$10,000,000 for the 3-year period beginning October 1, 1989.

Are there any amendments to Title V?

#### TITLE VI

The Chief of Staff will designate Title VI.

Mr. INGRAM. Title VI, other provisions.

#### VOTE ON THE SUBSTITUTE AS AMENDED

Chairman FASCELL. Are there any amendments to Title VI?

If not, the question then is on the substitute as amended. All those in favor of the substitute as amended—

Mr. SOLARZ. Mr. Chairman?

Chairman FASCELL. Mr. Solarz?

Mr. SOLARZ. You are not on final passage yet?

Chairman FASCELL. We are on the substitute as amended. We are just before final passage.

The question is on the substitute as amended.

All those in favor signify by saying aye.

All opposed, no.

The ayes have it.

Mr. Solarz.

Mr. SOLARZ. Mr. Chairman, I was just going to ask for a record vote on final passage.

#### VOTE ON FINAL PASSAGE

Chairman FASCELL. The question is on final passage. Does the gentleman care to leave the record open for a while?

Mr. SOLARZ. Yes.

Chairman FASCELL. What time does the Minority agree to?

Mr. BROOMFIELD. Five o'clock.

Chairman FASCELL. Without objection, the record will be left open until 5:00 o'clock for others to record their votes on the bill.

The question then, is on agreeing to the bill as amended by the substitute.

All those in favor will signify by saying aye.

The Clerk will call the roll.

Mr. INGRAM. Mr. Fascell.

Chairman FASCELL. Aye.

Mr. INGRAM. Mr. Hamilton.

Mr. HAMILTON. Aye.

Mr. INGRAM. Mr. Yatron.

[No Response.]



Mr. INGRAM. Mr. Solarz.

Mr. SOLARZ. Aye.

Mr. INGRAM. Mr. Studds.

[No Response.]

Mr. INGRAM. Mr. Wolpe—

Chairman FASCELL. Let me interrupt the roll call just to say we have got some more business, so please hang around for a while. Thank you.

Mr. INGRAM. I have Mr. Yatron aye by proxy and Mr. Wolpe aye by proxy.

Mr. Crockett.

[No Response.]

Mr. INGRAM. Mr. Gejdensen.

Mr. GEJDENSEN. Aye.

Mr. INGRAM. Mr. Dymally.

Mr. DYMALLY. Aye.

Mr. INGRAM. Mr. Lantos.

Mr. LANTOS. Aye.

Mr. INGRAM. Mr. Kostmayer.

Mr. KOSTMAYER. Aye.

Mr. INGRAM. Mr. Torricelli.

Mr. TORRICELLI. Aye.

Mr. INGRAM. Mr. Smith.

Mr. SMITH OF FLORIDA. Aye.

Mr. INGRAM. Mr. Berman.

Mr. BERMAN. Aye.

Mr. INGRAM. Mr. Levine.

Mr. LEVINE. Aye.

Mr. INGRAM. Mr. Feighan.

[No Response.]

Mr. INGRAM. Mr. Weiss.

Mr. WEISS. Aye.

Mr. INGRAM. Mr. Udall.

[No Response.]

Mr. INGRAM. Mr. Clarke.

Mr. CLARKE. Aye.

Mr. INGRAM. Mr. Fuster.

[No Response.]

Mr. INGRAM. Mr. Owens.

[No Response.]

Mr. INGRAM. Mr. Johnston.

Mr. JOHNSTON. Aye.

Mr. INGRAM. Mr. Engel.

Mr. ENGEL. Aye.

Mr. INGRAM. Mr. Faleomavaega.

[No Response.]

Mr. INGRAM. Mr. Bosco.

Mr. BOSCO. Aye.

Mr. INGRAM. Mr. McCloskey.

Mr. VAN DUSEN. Aye.

Mr. INGRAM. Mr. Payne.

Mr. PAYNE. Aye.

Mr. INGRAM. Mr. Broomfield.

Mr. BROOMFIELD. Aye.

Mr. INGRAM. Mr. Gilman.

Mr. GILMAN. Aye.  
 Mr. INGRAM. Mr. Lagomarsino.  
 Mr. LAGOMARSINO. Aye.  
 Mr. INGRAM. Mr. Leach.  
 Mr. LEACH. Aye.  
 Mr. INGRAM. Mr. Roth.  
 Mr. ROTH. No.  
 Mr. INGRAM. Ms. Snowe.  
 Ms. SNOWE. Aye.  
 Mr. INGRAM. Mr. Hyde.  
 Mr. HYDE. Aye.  
 Mr. INGRAM. Mr. Bereuter.  
 Mr. BEREUTER. Aye.  
 Mr. INGRAM. Mr. Smith.  
 Mr. SMITH. Aye.  
 Mr. INGRAM. Mr. DeWine.  
 Mr. DEWINE. Aye.  
 Mr. INGRAM. Mr. Burton.  
 [No Response.]  
 Mr. INGRAM. Mrs. Meyers.  
 Mrs. MEYERS. Aye.  
 Mr. INGRAM. Mr. Miller.  
 Mr. MILLER. Aye.  
 Mr. INGRAM. Mr. Lukens.  
 [No Response.]  
 Mr. INGRAM. Mr. Blaz.  
 Mr. BLAZ. Aye.  
 Mr. INGRAM. Mr. Gallegly.  
 [No Response.]  
 Mr. INGRAM. Mr. Houghton.  
 Mr. HOUGHTON. Aye.  
 Mr. INGRAM. Mr. Goss.  
 Mr. GOSS. Aye.  
 Mr. INGRAM. Ms. Ros-Lehtinen.  
 Ms. ROS-LEHTINEN. Aye.  
 Mr. INGRAM. Mr. Feighan by proxy, aye.  
 The vote is 35 to 1.<sup>1</sup>  
 [Whereupon, the committee proceeded to other business.]

---

<sup>1</sup> The final recorded vote on H.R. 3402, as amended by the substitute, was 41 ayes to 1 nay.

APPENDIX 1

Letter to Rep. Lee H. Hamilton (D-Indiana) from  
Leszek Balcerowicz, Deputy Prime Minister for Economic  
Affairs and Finance Minister  
Submitted by Jeffrey D. Sachs

WICEPREZES RADY MINISTROW  
MINISTER FINANSOW

Congressman Lee Hamilton  
House of Representatives  
U.S. Congress  
Washington, D.C.

September 16, 1989

Dear Congressman Hamilton:

I am writing to you to express my deep appreciation for your efforts to assist Poland in overcoming its grave economic crisis. The aspirations of the Polish people and the new government are clear: to create a parliamentary democracy and to transform the economy from a centrally planned system to a market system. As you know, these are arduous tasks, and they must be initiated in the circumstances of a hyperinflation and sharply falling living standards.

Timely foreign assistance will be vital to the success of our efforts. Therefore, I regard with deep appreciation and high hopes the hearings today of the Foreign Affairs Committee of the U.S. House of Representatives. As you learn more about our problems, I expect that you will understand that Poland needs a helping hand in the near future so that we may put our reform program in place. The transformation to a market economy will put Poland on a new path of economic growth, and will make Poland a stable and productive economy in the center of Europe.

I very much look forward to visiting Washington next week on the occasion of the Annual Meeting of the International Monetary Fund and the World Bank. I hope that I will have the pleasure of meeting with you and other members of the U.S. Congress at that time.

Once again, please accept my gratitude for your efforts on behalf of Poland.

Sincerely yours.

(LB)



Leszek Balcerowicz  
Deputy Prime Minister,  
for Economic Affairs  
and Finance Minister

## APPENDIX 2

A Plan for Poland  
Submitted by George Soros

There is no precedent for the successful conversion of a centrally planned economy to a market-oriented one. The present situation in Poland offers a unique opportunity to accomplish such a transformation. If successful, it would have an impact that goes far beyond the borders of Poland. It is not too much to say that it would change the course of history.

A radical, comprehensive program is more likely to succeed than the gradual, step-by-step approach usually favored by the IMF. Painful measures that would be accepted today may run into greater resistance in the future; and the more far-reaching the plan, the more likely it is to engender enthusiasm both in Poland and abroad, the Soviet Union included.

The main argument against a radical approach is the lack of preparation and the lack of qualified personnel. I believe that both shortcomings could be overcome with assistance from the West. A "big bang" could be prepared before the end of this year. Emergency help, especially food, could be obtained for the transition period.

A comprehensive reform program would have three major components:

- A) monetary stabilization;
- B) internal economic reorganization;
- C) external assistance.

A) Monetary Stabilization

This would be arranged with the assistance of the IMF but it would resemble the German currency reform of 1948 rather than a typical IMF program. Most price controls would be removed at once and a new, fully convertible currency introduced. Certain key commodities (bread, fuel) may remain controlled to provide an anchor for the price structure but the subsidies would be removed. Domestic prices of tradeable goods would adjust to international levels, prices of non-tradeable goods would be governed by the level of in-

comes. Wages and social benefits would have to be fixed for an initial twelve-month period. Thereafter, wages would be subject to collective bargaining and social benefits would be indexed to the cost of living. The Polish National Bank would be given greater autonomy to assure proper control of the money supply and the budget deficit would be eliminated as part of internal reform.

As a result, the cost of living should remain stable after the initial adjustment period and may even fall if improved efficiency is translated into a rising currency rather than rising wages. Real wages can be kept at their current level to start with but living standards would suffer from high unemployment. Internal reforms coupled with external assistance should encourage new investment so that both employment and living standards would start to rise rapidly from the initial low point. Special measures would be needed to attract investment to areas of high unemployment and to improve labor mobility. To this end, rents must be raised to realistic levels and housing privatized over a relatively short period of time. The introduction of realistic rents, the removal of subsidies, the reduction in international debt service, and the elimination of operating losses in State-owned enterprises should swing the State budget into surplus, allowing a reduction in taxation.

#### B) Internal Reform

The entire public sector would be converted into corporations guided by the profit motive. The major part of the equity capital would perforce remain in public hands since there is not enough private capital available, but both foreign and domestic private investment would be encouraged. Public shareholdings would be distributed into a large enough number of institutional hands to allow stock and bond markets to be established. Institutions would include profit sharing and pension funds, as well as newly created investment banks and trust funds for servicing the foreign debt.

To attract much needed foreign participation, the government would select certain enterprises and/or ministries and specify the percentage of foreign ownership allowed. Investment banks from abroad, as well as newly formed investment banks at home, would then be invited to take charge of these enterprises and/or ministries and arrange for their transfer into private hands. Insofar as they realize a

price above a guaranteed minimum established by a bidding process, they would participate in the profit. This would maximize the price received by Poland.

The conversion of the entire Polish industry to the profit motive could be accomplished over a period of, say, 3-5 years. The process would be guided by the National Property Trust envisaged by the Roundtable Agreement, relying on the assistance of foreign experts. Since most of the enterprises would be left in the hands of present management to start with, foreign experts could be helpful to Parliament in exercising control. It would be desirable to establish an expiration date for the National Property Trust.

C) External Debt Reorganization and Assistance

1) Commercial Bank Debt

Trade debt will be serviced in full. Medium term debt will continue to receive interest, but commercial banks will be asked to give a 3-5 year option to Poland to repurchase the loans at 40% of par; in addition, they will be asked to re-lend to Poland 100% of the interest they receive in the first year, 66% in the second year, and 33% in the third year, subject to the same conditions. Poland will have an incentive to exercise the option starting in the second year because the effective interest rate, calculated on the repurchase price, is very high. It will use any funds raised from the sale of assets for this purpose and, if it makes progress in attracting a capital inflow by maintaining high domestic interest rates, it should be able to refinance the entire amount quite soon. The bankers will have to be persuaded to accept these terms by the Paris Club governments.

ii) Paris Club Debt

There would be a three-year moratorium on payments. Ideally, interest would be forgiven during the moratorium period but, if this is not acceptable to the Paris Club because it would establish a precedent, interest could be capitalized. In that case, a commitment must be obtained now which would limit future obligations. Otherwise, the currency could not be stabilized because of the overhang of accumulated debt. The export credit agencies would re-open their windows

during the moratorium period and Poland would fully service all new obligations.

iii) New Money

Poland could receive, say, \$700 million a year for the next three years from the IMF and World Bank under existing facilities. In addition several countries (Germany in particular) have indicated willingness to provide bilateral credits. Together with private investment from abroad and the mobilization of Polish savings, this should be sufficient to make the currency stabilization scheme possible and to impart an upward momentum to the economy.

iv) Trade

- (a) The European Common Market would admit goods manufactured by EC subsidiaries in Poland free of duty. After the moratorium period, an excise duty may be charged which would be used to service the Paris Club debt. A similar concession may be made to all Polish enterprises, provided the Polish trade surplus is kept within certain bounds. The excise duty could be on a sliding scale, depending on the trade surplus. Some such arrangement is indispensable to create jobs for people displaced from loss-making enterprises.
- (b) Similar agreements may be concluded with the U.S., Scandinavia, Austria, Switzerland.
- (c) Trade with the USSR would have to be renegotiated. I know too little about it to formulate a concrete proposal, but the new arrangement should encourage Polish exports to the Soviet Union while allowing termination of uneconomic contracts.

v) Management Assistance

Management assistance from the West is required on a massive scale. Under the guidance and supervision of the National Property Trust, individual Polish enterprises may be matched up with individual Western enterprises. The Western enterprises would receive an incentive payment based on profit improvement. The Liquidating Agency itself would need an international staff -- Poles living abroad could be mobilized. The costs must be borne by Poland.

---

This plan is subject to modification in every detail as long as the guiding principle -- a radical transformation of the Polish economy -- prevails.

George Soros  
September 6, 1989



## APPENDIX 3

SUPPLEMENTAL QUESTIONS SUBMITTED BY THE SUBCOMMITTEE ON  
EUROPE AND THE MIDDLE EAST TO THE DEPARTMENT OF STATE  
AND RESPONSES THERETO:

## I. THE ADMINISTRATION PROPOSAL

## QUESTION:

1. What portion of the money for Poland that is for labor assistance would go to Solidarity?

- Would all of it be for Solidarity?
- Does it make a difference that Solidarity is now part of the government?

ANSWER: All of the labor assistance funds are for the Solidarity Trade Union. It makes no difference that Solidarity is now part of the government.

## QUESTION:

2. From FY 1987 through FY 1989, the United States provided \$4 million to Solidarity.

- What were those funds used for?
- How much of that money remains in the pipeline?
- What oversight have you had of how these funds were spent?
- How will the proposed labor programs for the new money differ from past programs?

ANSWER: Funds for Solidarity's use from the U.S. government between FY 1987 and FY 1989 were used for equipment, the running of offices and information distribution. None of that \$4 million remains in the pipeline. The funds were managed through the AFL-CIO which kept the U.S. government apprised of their allocation through regular reports. The new programs envisioned for FY 90 will create a labor institution in the country, rather than being dispersed throughout the various Solidarity chapters around the country.

## II. OTHER POSSIBLE INITIATIVES CONCERNING POLAND AND HUNGARY

## A. Agriculture:

## QUESTION:

1. What do you see as the record of the U.S.-funded Polish Agricultural Foundation?

- 2 -

- Is it having good success with water projects in the agricultural sector?
- Do you see this as a replicable model?

**ANSWER:** The Water Supply Foundation (WSF), which operates under the auspices of the Church Agricultural Committee, has developed a replicable model for providing support to the independent farmers of Poland. In a little over a year, the WSF has signed agreements with 245 villages which represents supply of potable water to 15,170 farm families - a number greater than was originally projected for the entire life of the \$10 million grant. The final commitment of \$4,225 million will be made in January 1990.

**QUESTION:**

2. Other suggestions to improve agriculture in Poland include:

- o Projects to create smaller food processing facilities, to break state monopolies;
- o Projects to provide implements to small farmers, including tires, batteries, fencing, tools, machinery, and spare parts;
- o Projects to improve rural transport and cold storage;
- Do you support such projects?
- Do you anticipate using Enterprise Funds for these purposes?
- How much can locally-generated currencies help you with such projects, and how much hard currency is required?

**ANSWER:** We believe the projects mentioned are worthy of support and anticipate that such activities, if they are viable, could be financed under the Enterprise Fund or through the proceeds available to the Joint Commission. The resources necessary will depend upon the specific proposal submitted. We hope that the local currency proceeds generated from the sale of Section 416 commodities, will complement the hard currency available for program activities.

**B. Exchanges:**

**QUESTION:**

1. Do you support the creation of binational Fulbright Commissions in Poland and Hungary?

- What priority do you attach to an expanded exchange program with Poland and Hungary at this time?
- Do you see a special need for exchanges to assist in the establishment of new legislative bodies in Poland and Hungary?

- 3 -

**ANSWER:** USIA has been negotiating with the Polish Ministry of Education for more than a year for the establishment of a binational Educational office in Poland, and we hope to sign such an agreement shortly.

We support the establishment of a Fulbright Commission in Hungary and have begun preliminary discussions with the Republic of Hungary on that matter.

We attach the highest priority to exchanges with these rapidly changing countries in Eastern Europe. In few countries anywhere in the world is there such potential for significant and beneficial exchanges with the U.S.

There is much that we can offer to the new legislatures in these countries. USIA has begun new and expanded projects through the International Visitor and American Participant programs to meet this need. We will bring legislators and staff from Poland and Hungary to the U.S. for orientation and will send American experts in various legislative specialties to Eastern Europe.

**QUESTION:**

3. What USIA resources are used at the present time for sister institution programs with Poland and Hungary?

- Do you support the expansion of sister institution programs with Poland and Hungary?

**ANSWER:** At present there are over 34 institutional linkages between U.S. and Polish universities, six of which received funding from USIA. USIA presently supports five direct university exchanges with Hungary. We anticipate an increase in proposals for these countries. In FY 89, USIA allocated approximately \$235,000 to support these programs.

Such programs as the University Affiliations program have been very useful and productive. We support these programs to encourage private institutions that eventually can absorb most or all of the costs involved.

## APPENDIX 4

Letter to Rep. Joseph M. McDade (D-Pennsylvania)  
 from Dr. Karol H. Sitha, president, Ermark, Inc.,  
 Former General Secretary for "Food for Peace" initiative

September 25, 1989

The Honorable Congressman Joseph M. McDade  
 2370 Rayburn Office Building  
 Washington, D.C. 20515

Dear Congressman McDade:

Thank you for your letter dated September 19, 1989. The following is the testimony requested as per the aforementioned letter for the committee's hearing records:

As the son of a major Polish industrialist whose properties in Poland were nationalized by both the Nazis and Communists, I am directly involved with the issues raised by pending legislation concerning the application of a "Free-market" economy in Poland. Any U.S. aid to Poland involving "privatization" must consider as a pre-condition the property rights of United States Citizens that lost property in Poland. Privatization, in order to be credible, must include a fair and equitable resolution of these property rights.

American aid to Poland encouraging "human rights" started with a program feeding Polish school children under the auspices of President Eisenhower's "Food for Peace" initiative. This specific program was initiated by United States citizens of Polish heritage in the Tenth Congressional District.

As one of the originators and General Secretary of this initiative, I can testify that, in addition to the humanitarian needs met by this program, it encouraged friendship and communications between the citizens of both nations and furthered the cause of Democracy in Poland. Congressman McDade's assistance and encouragement in this and other initiatives over the last three decades, has been invaluable.

Over the last three decades, events in Poland, encouraged by appropriate American aid, have led to the consideration of reforms crucial to the establishment of a solid democracy and economy. As Americans, we are well aware that these reforms are mutually interdependent and that political reforms must be based on concomitant economic reforms. Any reforms that do not consider the entire bundle of individual rights are doomed to failure.

Solutions exist to the problem of the transition from a totalitarian economy to a market economy and have been resolved without harming individual property rights. The post-war experiences of West Germany provide a template for this transition that integrated the immediate economic needs and the individual property rights that existed prior to the totalitarian takeover.

PAGE TWO  
THE HONORABLE CONGRESSMAN JOSEPH M. MCDADE  
SEPTEMBER 25, 1989

A proposal involving specifics follows:

PLAN OF BUSINESS AND ACTIVITIES INVOLVING REPRIVATIZATION OF THREE (3)  
INDUSTRIAL FLOUR MILLS AND ONE (1) BRICK FACTORY LOCATED IN POLAND.

#### HISTORY

The industrial flour mills located at Mikolow, Wodzislaw, and Zory as well as the brick factory at Mikolow founded in 1840 by Mr. R. Stern and son (family in California, emigrated 1933) was sold to Karol Sitko in 1933. Karol Sitko had a partner, Mr. M. Kowol. On June 7, 1936, Karol Sitko was murdered. All properties and holdings of Karol Sitko were inherited by his son Karol H. Sitko, his daughter Elizabeth Hanslik nee Sitko, and his wife Maria Sitko nee Liebner. The inheritance documentation is on hand.

The history of the holdings and of the industrial flour mills and brick factory continued. All mills and brick factory were remodeled in 1922 and finally in 1936 and 1939. The mills' daily capacity or production is up to 100 tons per day for the flour mills in Zory and Wodzislaw, and up to 80 tons daily for the flour mill in Mikolow. The industrial flour mills were the largest operation in Poland in this branch of agricultural products. Export arrangements were the main part of the business. The export was handled by those industrial mills with Germany according to post World War I arrangements within the framework of the Geneva agreement. Germany paid in cash and in part with products including Mercedes-Benz trucks, cars, and equipment. The flour mills continued to be the largest operation of its kind until the present day.

September 1939 the industrial flour mills, the brick factory, and thirty-six (36) retail stores as well as two (2) villas, all owned by the Sitko family were nationalized by the Nazi German government at the time Poland was invaded during the start of World War II. During February 1946, at the time Poland was "liberated" by the Soviet forces, all the properties were again nationalized by the Polish Communist regime. The Sitko family emigrated. Dr. Karol H. Sitko lives in the United States since July 15, 1953. He has three children: Stanley A. Sitko, a real estate broker working for the State of Pennsylvania, age 39; Michelle Drozdowski nee Sitko, Librarian of the State University of Indiana, Slavic Studies Center in Bloomington, Indiana (her husband Peter Drozdowski is a professor at the same University) age 35; Janina B. B. Sitko, in business and presently President of American European Heritage Corporation, Greentown, Pennsylvania, age 29. American European Heritage Corporation is a family business whereby Karol H. Sitko is the Corporate Secretary and Angela Sitko, nee Harazim, is the Treasurer of the Corporation. All are United States Citizens.

Due to the recent political and economic changes in Poland, the Sitko family is ready to return to Poland and help Poland on the road to democracy.

Dr. Karol H. Sitko, age 69, was very active for the past forty-four (44) years in political and economic research work dealing with East-West problems.

PAGE THREE  
 THE HONORABLE CONGRESSMAN JOSEPH M. MCDADE  
 SEPTEMBER 25, 1989

The family was directly involved and understands all the political and economic problems of Central Europe which embraces Poland, both Germanies, and the rest of Western Europe. As Americans, all members of the family are also very much aware of the American interests in the political and economic future of Central Europe. The family is only interested in moving to Poland as Americans protecting American interests and convinced that pilot projects of this type based on reprivatization of American holdings in Poland are the best approach to aid Poland on the road to democracy. The family's experience in the rebuilding process of post World War II West Germany is an additional factor how to apply ways and means in reconstructing a private economy in Poland.

Dr. Karol H. Sitko, a student of Political Science and Economy of Professor Dr. Hailstein and Professor Erhard at the University of Frankfurt, West Germany, was very familiar with the economic reconstruction process of the European community and was a part of this process. Professor Dr. Hailstein became the father of the first plan of European Community called "Montan-Union" (French-West German cooperation and economic settlement as well as the cornerstones of West European economic recovery.). Professor Erhard, later Chancellor of West Germany and father of the economic reconstruction plan, is directly responsible for the growth of West German economic success.

As a born Upper Silesian of Polish heritage, Dr. Karol H. Sitko is, up to today, the elected President of the World Association of Upper Silesians, embracing Polish, German, and Jewish Upper Silesians (information is in the American Encyclopedia of Associations.).

All those highlights of the history involving the American industrial enterprise gave the Sitko family all the necessary knowledge to be successful in this project. Dr. Karol H. Sitko is also the Chairman and Organizer of the Human Rights Division in the United States of Pope John Paul II, Vatican, Rome. Dr. Karol H. Sitko was knighted for his extraordinary activities as a "Knight of New Europe" by Pope Paul VI. Dr. Karol H. Sitko's religious preference for the past twenty-six years is Episcopalian. He and his family are members of the Episcopal Church of the United States.

The industrial flour mills since 1922, had the registered name "American Steam and Electric Flour Mills, Mikolow, Zory, Wodzislaw." The machinery of the industrial flour mills is Buhler-Miag, produced in Switzerland and Germany. The method of production was adopted from the American flour mills of that time.

#### STRUCTURE OF OWNERSHIP

Until 1933, Karol Sitko was a partner of the American Flour Mill in Zory, Polish Upper Silesia, with Adam Stern. After 1933, he purchased the part of Adam Stern who emigrated to the United States. Karol Sitko died June 7, 1936 and his interest was inherited -- 3/8 of his assets to each of his children, Karol H. Sitko and Elizabeth Sitko, 2/8 to Maria Sitko, his wife. This is the result of the court decision based on inheritance rights according to the Prussian law. Mrs. Maria Sitko died in 1984 and as a result, the holdings of Karol Sitko are at present 4/8 owned by Karol H. Sitko in the United States and 4/8 owned by Elizabeth Hanslik, nee Sitko, residing in West Germany.

PAGE FOUR  
THE HONORABLE CONGRESSMAN JOSEPH M. MCDADE  
SEPTEMBER 25, 1989

The industrial mill in Mikolow has the same inheritance and ownership relation as well as the industrial mill in Wodzislaw.

Dr. Karol H. Sitko, now a United States citizen and a resident of the United States for thirty-seven (37) years, did file a claim against Communist Poland in 1958, however, the Stalinist Administration of Poland and life-threat to the family Sitko in Poland made it impossible to recognize the claims. It was established that Dr. Karol H. Sitko had a minimum loss of \$250,000 annually from the business activities of his holdings in Poland. Forty-five (45) years under Communist Polish administration creates a loss of over ten million dollars, without interest.

#### MEETINGS WITH POLISH AUTHORITIES AND PROPOSAL FOR REPRIVATIZATION

Numerous meetings were held with Polish Communist authorities with the result that the Polish Communist authorities did recognize the ownership rights of Dr. Karol H. Sitko but simultaneously stated that the Polish Communist government does not have money in hard-currency to settle the matter. At the last meeting with the Polish authorities in August, 1989, the Polish government representative, Commercial Attache, Mr. Baginski, tried to find ways and means for the reprivatization process but because of no reforms as to the reprivatization of nationalized properties at the present moment, he suggested a solution which was unacceptable to the Sitko family. He proposed to buy back the properties from the Polish Communist government using the investment and the modernization of the industrial objects as assets for reprivatization. The new Polish government in existence for the past few days will propose the necessary reforms to recognize the obligations of American ownership in Poland and to find ways and means for reprivatization.

#### PROJECT OF ACTIVITIES STARTING IMMEDIATELY

The reprivatization process of the industrial holdings of American citizens in Poland will have to be started as soon as changes in the Polish law will be approved by the Senate and House of Representatives in Poland. Such changes are expected. I was advised by Polish authorities that I should move, filing a request for reprivatization as soon as possible.

The reprivatization must include approval of the claims for compensation under the laws of the Polish non-Communist government as filed by persons who, as former citizens of Poland, were persecuted because of anti-Communist persuasion or for reasons of race, faith, or philosophy of life, and suffered damages to life, body, health, liberty, rights of property ownership, or to professional or economic advancement. Some intermediary solution should be formulated in an agreement guaranteeing reprivatization and recognizing compensations due to citizens of the United States pursuant to claims filed under the new laws on account of such persecution which resulted in damage to life, body, health, liberty, or to professional and economic advancement which are in the nature of reimbursement for the deprivation of civil or personal rights. As soon as an agreement between the Polish new authorities

PAGE FIVE  
 THE HONORABLE CONGRESSMAN JOSEPH M. MCDADE  
 SEPTEMBER 25, 1989

and Dr. Karol H. Sitko and family can be formulated in the form of an agreement (which should be possible in the Fall of 1989) Dr. Sitko and his family will move to Poland to take over the industrial properties.

While preparing this agreement and the move to Poland, an application and procedure for necessary loans with the Overseas Private Investment Corporation should be filed. It will include the modernization of the industrial properties, the capital necessary to conduct business, developing a hard-currency export operation with Western Europe, acquisition of the source materials, in this case grain products, for hard-currency since we cannot expect that Poland or Hungary will be able to move to provide the source material necessary during 1989 and 1990. A detailed step-by-step program of each phase will be worked out by Dr. Karol H. Sitko and his family on location.

The preparation of the marketing in Western Europe as well as the first and eventual second year of acquisition of basic material and machinery as well as repair will allow the production and marketing as well as export within eighteen (18) months of the start of the operation.

Training and schooling can be arranged with Western European industrial flour mills having the best and most modern knowledge of food processing and related matters. West German industry leaders as well as Swiss industry operations are willing to help.

The first phase of operation should be completed within three years, creating a profitable business based on export of the grain flour products as well as special additional products like breakfast cereals known in the United States.

A percentage of the products will have to be used regionally to help to overcome a possible hunger period, especially afflicting children and the young generation. Flour means bread, flour means breakfast cereals and are the basic necessities for the population which is unable to buy food. The same procedure started as I experienced in West Germany after 1945.

During the first phase of the operation, the reprivatization of the holdings should be completed while the success of such a pilot project would be a model for many to follow in the same branch of industry or others. The agricultural reprivatization involving the farmers and producers of grain and related products must be also the first phase of reprivatization in Poland. The consequence would be that the basic material like grain and fruits used for breakfast cereals can be produced in Poland starting by the harvest of 1990. The same approach involves Hungary whereby I am estimating that Hungary will be able to sell the resource material like grain and fruits approximately one year earlier than Poland.

It is a very good estimate that within a two to three year activity, all the basic materials can be acquired or purchased in Poland and Hungary and the final product exported to Western Europe on a regular basis.

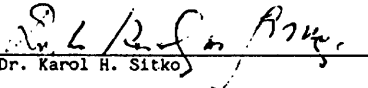


PAGE SIX  
THE HONORABLE CONGRESSMAN JOSEPH M. MCDADE  
SEPTEMBER 25, 1989

As a final project, the marketing should be specialized in luxury and regular product quality. The total capital necessary must be covered by loan arrangements for a period of fifteen, even thirty, years repayment time with a minimum percentage of interest. The collateral should be the total assets of the owners, the production facilities and equipment.

The American ownership of this enterprise will be interested in helping other business ventures, especially import of products from the United States.

— All obligations having their roots in the Nazi or Communist persecution or atrocities, loss of property, life, health, or liberty, cannot be the responsibility of the new owners, but must be settled in a country to country agreement to establish the claims for compensation.

  
Dr. Karol H. Sitko

## APPENDIX 5

Letter to Rep. Doug Bereuter (R-Nebraska)  
from the North American Export Grain Association,  
American Farm Bureau Federation

October 4, 1989

The Honorable Doug Bereuter  
U.S. House of Representatives  
Room 2446 Rayburn House Office Building  
Washington, D.C. 20515

Dear Congressman Bereuter:

We the undersigned take this opportunity to urge Congress and the Administration to waive cargo preference requirements applied to current emergency food aid shipments to Poland, as needed at this time to maximize U.S. humanitarian efforts aimed at meeting critical food shortages in that country.

As U.S. taxpayers and friends of the Polish people, we are concerned that as much as 40 to 50 percent of U.S. funds devoted to current Polish bulk grain food aid may be swallowed up in subsidizing higher than world market freight rates charged by U.S. shipping companies. This situation arises from the requirement that 75 percent of all U.S. bulk food aid shipments to Poland be carried on U.S. flag vessels regardless of higher U.S. shipping costs, which currently run three to four times higher than the lowest non-U.S. carrier rate. Recent private estimates show U.S. costs of shipping to Poland at \$70 to \$90 a ton, compared with non-U.S. rates of between \$15 and \$25 a ton.

At this critical moment in Polish history, it behooves the United States to provide the most generous assistance possible to the Polish people. This alone, in our opinion, justifies waiver of cargo preference requirements applied to food aid shipments to Poland. However, we note that the problem is not isolated to Poland alone. Cargo preference, as a general rule, taxes resources available for humanitarian assistance, undermining the U.S. ability to respond as needed to food crises throughout the world.

We understand that amendments may soon be offered in the House to upcoming legislation that would provide the waiver of cargo preference to Poland that we seek. We urge you to support such efforts in the interest of U.S. taxpayers and the Polish people.

We thank you for your kind consideration.

Sincerely Yours,

NORTH AMERICAN EXPORT GRAIN ASSOCIATION  
AMERICAN FARM BUREAU FEDERATION

## APPENDIX 6

Letter to Mr. Richard Crowder, Under Secretary,  
Department of Agriculture from the  
Embassy of the Polish People's Republic

Mr. Richard CROWDER  
Undersecretary  
United States Department of Agriculture  
Washington D.C

Dear Mr. Secretary :

In accordance to our information the US Government granted 119 mio dol. in food aid for Poland. By law at least 75 percent of all US food donations must be shipped on US ships whose rates are at present higher than market rates by 3-4 time. These in turn will cut substantial part of food aid.

Therefore it is of utmost importance to waive the clause requiring that 75 percent of US food aid shall be carried on US flag vessels.

By eliminating such condition the scale of US food aid will be much greater. Allocated financing will be spent on food rather than transportation.

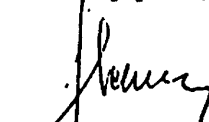
Therefore I request you to carry this message to the Congress, which is about to vote an amendment waiving cargo preference rule, proposed by Senator Chuck Grassley and supported among others by Senator Bob Dole, who learned our position in Poland while visiting our country recently.

- 2 -

Your prompt action in this matter would be highly appreciated by Government of the Polish People's Republic and Polish nation.

Thanking you in advance for your understanding and assistance, I remain,

Sincerely yours,



Jerzy KAPUSCINSKI  
Commercial Counselor  
Minister Plenipotentiary

cc. Senator Chuck GRASSLEY

Senator Robert DOLE

HR3402SUB

Appendix 7

[October 11, 1989]

**AMENDMENT-IN-THE-NATURE-OF-A-SUBSTITUTE TO H.R. 3402  
OFFERED BY MR. FASCELL**

Strike out all after the enacting clause and insert in lieu thereof the following:

**1 SECTION 1. SHORT TITLE AND TABLE OF CONTENTS.**

**2 (a) SHORT TITLE.--**This Act may be cited as the ``Polish  
**3 and Hungarian Democracy Initiative of 1989``.**

**4 (b) TABLE OF CONTENTS.--**The table of contents for this  
**5 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. Peace Corps programs in Poland and Hungary.**

**Sec. 205. 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.**

HR3402SUB

2

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 PROVISIONS

Sec. 601. AID administrative expenses.

Sec. 602. Annual reports to Congress.

Sec. 603. Coordination by Secretary of State.

#### 1 TITLE I--STRUCTURAL ADJUSTMENT

#### 2 SEC. 101. MULTILATERAL SUPPORT FOR STRUCTURAL ADJUSTMENT IN

#### 3 POLAND AND HUNGARY.

4 (a) ACTIONS BY THE UNITED STATES.--To the extent that

5 Poland and Hungary continue to evolve toward pluralism and

6 democracy and to develop and implement comprehensive economic

7 reform programs--

8 (1) the United States Government shall take the

9 leadership in mobilizing international financial

10 institutions (in particular the International Monetary

11 Fund and the International Bank for Reconstruction and

12 Development and its affiliated institutions in the World

HR3402SUB

3

1 Bank group) to provide timely and appropriate resources  
2 to help Poland and Hungary;

3 (2) the United States Government, in conjunction with  
4 other member governments of the Organization of Economic  
5 Cooperation and Development (OECD) and international  
6 financial institutions (including the International  
7 Monetary Fund), shall support the implementation of a  
8 plan of the Government of Poland to attack hyperinflation  
9 and other structural economic problems, address pressing  
10 social problems, carry out comprehensive economic reform,  
11 and relieve immediate and urgent balance of payments  
12 requirements in Poland, through the use of mechanisms  
13 such as--

14 (A) the Exchange Stabilization Fund pursuant to  
15 section 5302 of title 31, United States Code, and in  
16 accordance with established Department of the  
17 Treasury policies and procedures; and

18 (B) the authority provided in subsection (b) of  
19 this section;

20 (3) the United States Government shall urge all  
21 members of the "Paris Club" of creditor governments and  
22 other creditor governments to adopt, and participate in,  
23 a generous and early rescheduling program for debts owed  
24 by the Government of Poland; and

25 (4) the United States Government--

HR3402SUB

4

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

8           (B) in order to ensure the necessary quantity and  
9           diversity of such agricultural assistance, shall take  
10          all appropriate steps to encourage parallel efforts  
11          by the European Community and other agricultural  
12          surplus nations.

13       (b) STABILIZATION ASSISTANCE FOR POLAND.--

14           (1) GENERAL AUTHORITY.--In order to carry out  
15          subsection (a)(2), the President is authorized to furnish  
16          assistance for Poland, notwithstanding any other  
17          provision of law, to assist in the urgent stabilization  
18          of the Polish economy and ultimately to promote longer-  
19          term economic growth and stability, based on movement  
20          toward free market principles. Such assistance may be  
21          provided for balance of payments support (including  
22          commodity import programs), support for private sector  
23          development, or for other activities to further efforts  
24          to develop a free market-oriented economy in Poland.

25           (2) AMOUNT OF ASSISTANCE.--A total of \$200,000,000



HR3402SUB

5

1 may be made available under paragraph (3) to carry out  
2 this subsection, in addition to amounts otherwise  
3 available for such purpose.

4 (3) SOURCE OF FUNDS.--Funds to carry out this  
5 subsection are authorized to be made available in an  
6 appropriation Act by--

7 (A) the appropriation for fiscal year 1990 of any  
8 moneys in the Treasury not otherwise appropriated; or

9 (B) the transfer or use, notwithstanding any  
10 other provision of law, of such unobligated funds  
11 available in fiscal year 1990 as may be specified in  
12 such appropriation Act.

13 (4) EXTENDED AVAILABILITY OF FUNDS.--Funds made  
14 available under this paragraph (3) are authorized to be  
15 made available for obligation through September 30, 1991.

16 (c) FY 1990 MINIMUM LEVEL OF AGRICULTURAL ASSISTANCE FOR  
17 POLAND.--In carrying out subsection (a)(4)(A), the level of  
18 assistance for Poland for fiscal year 1990 under section  
19 416(b) of the Agricultural Act of 1949 (7 U.S.C. 1431(b)),  
20 the Agricultural Trade Development and Assistance Act of 1954  
21 (7 U.S.C. 1691 and following), and the Food for Progress Act  
22 of 1985 (7 U.S.C. 1736o) should not be less than  
23 \$125,000,000. Such assistance--

24 (1) to the maximum extent practicable, shall be  
25 provided through nongovernmental organizations; and

HR3402SUB

6

1           (2) shall emphasize feed grains.

2   SEC. 102. REPORT TO CONGRESS.

3       (a) INITIAL REPORT.--Not later than 60 days after the  
4   date of enactment of this Act, the President shall submit a  
5   report to the Congress--

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

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

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

15       (b) UPDATING ASSESSMENTS.--As additional information  
16   becomes available, the President shall provide to the  
17   Congress revised assessments of Poland's requirements for  
18   agricultural assistance during fiscal years 1991 and 1992,  
19   specifying how much agricultural assistance the President  
20   proposes be provided by the United States to meet those  
21   requirements.

22                   TITLE II--PRIVATE SECTOR DEVELOPMENT

23   SEC. 201. ENTERPRISE FUNDS FOR POLAND AND HUNGARY.

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

HR3402SUB

7

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

(2) 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) NONAPPLICABILITY OF OTHER LAWS.--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

HR3402SUB

8

1 section notwithstanding any other provision of law.

2 (d) DESIGNATION OF ENTERPRISE FUNDS.--

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

13 (2) CONSULTATION WITH CONGRESS.--The President shall  
14 consult with the leadership of each House of Congress  
15 before designating an organization pursuant to paragraph  
16 (1).

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

23 (4) ELIGIBILITY OF ENTERPRISE FUNDS FOR  
24 GRANTS.--Grants may be made to an Enterprise Fund under  
25 this section only if the Enterprise Fund agrees to comply

HR3402SUB

9

1 with the requirements specified in this section.

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

9 (e) GRANTS TO ENTERPRISE FUNDS.--Funds appropriated to  
10 the President pursuant to subsection (b) shall be granted to  
11 the Enterprise Funds by the Agency for International  
12 Development (hereafter in this section referred to as the  
13 "Agency") to enable the Enterprise Funds to carry out the  
14 purposes specified in subsection (a) and for the  
15 administrative expenses of each Enterprise Fund.

16 (f) MATTERS TO BE CONSIDERED BY ENTERPRISE FUNDS.--In  
17 carrying out this section, each Enterprise Fund shall take  
18 into account such considerations as internationally  
19 recognized worker rights and other internationally recognized  
20 human rights, environmental factors, United States economic  
21 and employment effects, and the likelihood of commercial  
22 viability of the activity receiving assistance from the  
23 Enterprise Fund.

24 (g) RETENTION OF INTEREST.--An Enterprise Fund may hold  
25 funds granted to it pursuant to this section in interest-

HR3402SUB

10

1 bearing accounts, prior to the disbursement of such funds for  
2 purposes specified in subsection (a), and may retain for such  
3 program purposes any interest earned on such deposits without  
4 returning such interest to the Treasury of the United States  
5 and without further appropriation by the Congress.

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

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

14 (j) LIMITATION ON PAYMENTS TO ENTERPRISE FUND  
15 PERSONNEL.--No part of the funds of either Enterprise Fund  
16 shall inure to the benefit of any board member, officer, or  
17 employee of such Enterprise Fund, except as salary or  
18 reasonable compensation for services.

19 (k) INDEPENDENT PRIVATE AUDITS.--The accounts of each  
20 Enterprise Fund shall be audited annually in accordance with  
21 generally accepted auditing standards by independent  
22 certified public accountants or independent licensed public  
23 accountants certified or licensed by a regulatory authority  
24 of a State or other political subdivision of the United  
25 States. The report of each such independent audit shall be

HR3402SUB

11

1 included in the annual report required by this section.

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

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

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

13 (A) separate accounts with respect to such  
14 assistance;

15 (B) such records as may be reasonably necessary  
16 to disclose fully the amount and the disposition by  
17 such recipient of the proceeds of such assistance,  
18 the total cost of the project or undertaking in  
19 connection with which such assistance is given or  
20 used, and the amount and nature of that portion of  
21 the cost of the project or undertaking supplied by  
22 other sources; and

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

25 (2) that the Enterprise Funds, or any of their duly

HR3402SUB

12

1 authorized representatives, have access for the purpose  
2 of audit and examination to any books, documents, papers,  
3 and records of the recipient that are pertinent to  
4 assistance provided through the Enterprise Funds under  
5 this section.

6 (n) ANNUAL REPORTS.--Each Enterprise Fund shall publish  
7 an annual report, which shall include a comprehensive and  
8 detailed description of the Enterprise Fund's operations,  
9 activities, financial condition, and accomplishments under  
10 this section for the preceding fiscal year. This report shall  
11 be published not later than January 31 each year, beginning  
12 in 1991.

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

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

18 (1) provide technical assistance to Poland and  
19 Hungary for the implementation of labor market reforms;  
20 and

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

24 (b) TYPES OF TECHNICAL ASSISTANCE AUTHORIZED.--In  
25 carrying out subsection (a), the Secretary is authorized to



HR3402SUB

13

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

13 (c) ADMINISTRATIVE AUTHORITIES.--In carrying out  
14 subsection (a), the Secretary is authorized to do the  
15 following:

16 (1) Accept in the name of the Department of Labor,  
17 and employ or dispose of in furtherance of the purposes  
18 of this section, any money or property, real, personal,  
19 or mixed, tangible or intangible, received by gift,  
20 devise, bequest, or otherwise. Gifts and donations of  
21 property which are no longer required for the discharge  
22 of the purposes of this section shall be reported to the  
23 Administrator of General Services for transfer, donation,  
24 or other disposal in accordance with the Federal Property  
25 and Administrative Services Act of 1949 (40 U.S.C. 471

HR3402SUB

14

1 and following).

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

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

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

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

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

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

24 (g) AUTHORIZATION OF APPROPRIATIONS.--There are  
25 authorized to be appropriated to the Department of Labor for

HR3402SUB

15

1 the 3-year period beginning October 1, 1989, to carry out  
2 this section--

3 (1) \$4,000,000 for technical assistance to Poland;  
4 and

5 (2) \$1,000,000 for technical assistance to Hungary.

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

8 (a) TECHNICAL TRAINING PROGRAM.--The Agency for  
9 International Development shall develop and implement a  
10 program for extending basic agribusiness, commercial,  
11 entrepreneurial, financial, scientific, and technical skills  
12 to the people of Poland and Hungary to enable them to better  
13 meet their needs and develop a market economy. This program  
14 shall include management training and agricultural extension  
15 activities.

16 (b) PARTICIPATION BY ENTERPRISE FUNDS AND OTHER AGENCIES  
17 AND ORGANIZATIONS.--In carrying out subsection (a), the  
18 Agency for International Development may utilize the Polish-  
19 American Enterprise Fund and the Hungarian-American  
20 Enterprise Fund (as designated pursuant to section 201(d))  
21 and other appropriate Government and private agencies,  
22 programs, and organizations such as--

23 (1) the Department of Agriculture;

24 (2) the Farmer-to-Farmer Program under section

25 406(a)(1) and (2) of the Agricultural Trade Development

HR3402SUB

16

1 and Assistance Act of 1954 (7 U.S.C. 1736(a)(1) and (2));  
2 (3) the International Executive Service Corps;  
3 (4) the Foundation for the Development of Polish  
4 Agriculture;  
5 (5) the World Council of Credit Unions; and  
6 (6) other United States, Polish, and Hungarian  
7 private and voluntary organizations and private sector  
8 entities.

9 (c) NONAPPLICABILITY OF OTHER PROVISIONS OF  
10 LAW.--Assistance provided pursuant to subsection (a) under  
11 the authorities of part I of the Foreign Assistance Act of  
12 1961 may be provided notwithstanding any other provision of  
13 law.

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

21 **SEC. 204. PEACE CORPS PROGRAMS IN POLAND AND HUNGARY.**

22 There are authorized to be appropriated to carry out  
23 programs in Poland and Hungary under the Peace Corps Act,  
24 \$6,000,000 for the 3-year period beginning October 1, 1989,  
25 in addition to amounts otherwise available for such purposes.

HR3402SUB

17

1 Such programs shall give priority to using Peace Corps  
2 volunteers to extend the technical skills described in  
3 section 203(a) to the people of Poland and Hungary.

4 SEC. 205. USE OF POLISH CURRENCY GENERATED BY AGRICULTURAL  
5 ASSISTANCE.

6 (a) ADDITIONAL ASSISTANCE FOR POLAND.--A portion of the  
7 agricultural commodities described in subsection (c) may be  
8 made available and sold or bartered in Poland to generate  
9 local currencies to be used--

10 (1) to complement the assistance for Poland  
11 authorized by sections 101(a)(4)(A), 201, and 203 of this  
12 Act, and

13 (2) to support the activities of the joint commission  
14 established pursuant to section 2226 of the American Aid  
15 to Poland Act of 1988 (7 U.S.C. 1431 note),  
16 notwithstanding section 416(b)(7) of the Agricultural Act of  
17 1949 (7 U.S.C. 1431(b)(7)) or any other provision of law.

18 (b) EMPHASIS ON AGRICULTURAL DEVELOPMENT.--The uses of  
19 local currencies generated under this section should  
20 emphasize the development of agricultural infrastructure,  
21 agriculture-related training, and other aspects of  
22 agricultural development in Poland.

23 (c) COMMODITIES SUBJECT TO REQUIREMENTS.--Subsection (a)  
24 applies with respect to agricultural commodities made  
25 available for Poland for fiscal years 1990, 1991, and 1992

HR3402SUB

18

1 under section 416(b) of the Agricultural Act of 1949 (7  
2 U.S.C. 1431(b)), the Agricultural Trade Development and  
3 Assistance Act of 1954 (7 U.S.C. 1691 and following), and the  
4 Food for Progress Act of 1985 (7 U.S.C. 1736o).

5 (d) OTHER USES NOT PRECLUDED.--The uses of agricultural  
6 commodities and local currencies specified in subsection (a)  
7 are in addition to other uses authorized by law.

8 TITLE III--TRADE AND INVESTMENT

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

11 Subsection (b) of section 502 of the Trade Act of 1974  
12 (19 U.S.C. 2462(b)) is amended by striking out ``Poland`` in  
13 the table within such subsection.

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

16 (a) ELIGIBILITY OF POLAND AND HUNGARY FOR OPIC  
17 PROGRAMS.--Section 239(f) of the Foreign Assistance Act of  
18 1961 (22 U.S.C. 2199(f)) is amended by inserting `` , Poland,  
19 Hungary,`` after ``Yugoslavia``.

20 (b) ENHANCEMENT OF NONGOVERNMENTAL SECTOR.--In accordance  
21 with its mandate to foster private initiative and competition  
22 and enhance the ability of private enterprise to make its  
23 full contribution to the development process, the Overseas  
24 Private Investment Corporation shall support projects in  
25 Poland and Hungary which will result in enhancement of the

HR3402SUB

19

1 nongovernmental sector and reduction of state involvement in  
2 the economy.

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

4 (a) **AUTHORITY TO EXTEND CREDIT TO POLAND AND**  
5 **HUNGARY.**--Notwithstanding section 2(b)(2) of the Export-  
6 Import Bank Act of 1945 (12 U.S.C. 635(b)(2)), the Export-  
7 Import Bank of the United States may guarantee, insure,  
8 finance, extend credit, and participate in the extension of  
9 credit in connection with the purchase or lease of any  
10 product by the Hungarian People's Republic, or any agency or  
11 national thereof, or by the Polish People's Republic, or any  
12 agency or national thereof.

13 (b) **PRIVATE FINANCIAL INTERMEDIARIES TO FACILITATE**  
14 **EXPORTS TO POLAND.**--Consistent with the provisions of the  
15 Export-Import Bank Act of 1945 (12 U.S.C. 635 and following),  
16 the Export-Import Bank of the United States shall work with  
17 private financial intermediaries in Poland to facilitate the  
18 export of goods and services to Poland.

19 **SEC. 304. TRADE CREDIT INSURANCE PROGRAM FOR POLAND.**

20 (a) **ESTABLISHMENT OF PROGRAM.**--Chapter 2 of part I of the  
21 Foreign Assistance Act of 1961 is amended by inserting after  
22 section 224 (22 U.S.C. 2184) the following new section:

23 **SEC. 225. TRADE CREDIT INSURANCE PROGRAM FOR POLAND.**

24 (a) **GENERAL AUTHORITY.**--

25 (1) **ASSURANCE TO EXPORT-IMPORT BANK OF**

HR3402SUB

20

1       REPAYMENT.--The President is authorized to provide  
2       guarantees to the Bank for liabilities described in  
3       paragraph (2) in order to satisfy the requirement of  
4       section 2(b)(1)(B) of the Export-Import Bank Act of 1945  
5       (12 U.S.C. 635(b)(1)(B)) that the Bank have reasonable  
6       assurance of repayment.

7       “(2) LIABILITIES WHICH MAY BE GUARANTEED.--The  
8       liabilities that may be guaranteed under paragraph (1)  
9       are liabilities incurred by the Bank in connection with  
10      guarantees or insurance provided under the Export-Import  
11      Bank Act of 1945 for financing for transactions involving  
12      the export of goods and services for the use of the  
13      private sector in Poland.

14      “(b) GUARANTEES AVAILABLE ONLY FOR SHORT-TERM GUARANTEES  
15      AND INSURANCE.--Guarantees provided under subsection (a)  
16      shall be for short-term guarantees and insurance extended by  
17      the Bank which shall be repayable within a period not to  
18      exceed one year from the date of arrival at the port of  
19      importation of the goods and services covered by such  
20      guarantees or insurance.

21      “(c) AGREEMENT ON CRITERIA AND PROCEDURES.--Guarantees  
22      or insurance extended by the Bank and guaranteed pursuant to  
23      subsection (a) shall be provided by the Bank in accordance  
24      with criteria and procedures agreed to by the Administrator  
25      and the Bank.



HR3402SUB

21

1       “(d) RESERVE FUND.--The agreement referred to in  
2 subsection (c) shall also provide for the establishment of a  
3 reserve fund by the administering agency, with such funds  
4 made available to the reserve as the Administrator deems  
5 necessary to discharge liabilities under guarantees provided  
6 under subsection (a).

7       “(e) DISCHARGE OF LIABILITIES.--

8           “(1) FUNDS WHICH MAY BE USED.--Such amounts of the  
9 funds made available to carry out chapter 4 of part II of  
10 this Act (relating to the economic support fund) as the  
11 President determines are necessary may be made available  
12 to discharge liabilities under guarantees entered into  
13 under subsection (a).

14          “(2) CREDITING OF SUBSEQUENT PAYMENTS.--To the  
15 extent that any of the funds made available pursuant to  
16 paragraph (1) are paid out for a claim arising out of  
17 liabilities guaranteed under subsection (a), amounts  
18 received after the date of such payment, with respect to  
19 such claim, shall be credited to the reserve fund  
20 established pursuant to subsection (d), shall be merged  
21 with the funds in such reserve, and shall be available  
22 for the purpose of payments by the Administrator to the  
23 Bank for guarantees under subsection (a).

24          “(f) APPROPRIATIONS ACTION REQUIRED.--Commitments to  
25 guarantee under subsection (a) are authorized only to the

HR3402SUB

22

1 extent and in the amounts provided in advance in  
2 appropriations Acts.

3     “(g) LIMITATION ON OUTSTANDING COMMITMENTS.--The  
4 aggregate amount of outstanding commitments under subsection  
5 (a) may not exceed \$200,000,000 of contingent liability for  
6 loan principal during any fiscal year.

7     “(h) BIENNIAL REPORTS TO CONGRESS.--Every 6 months, the  
8 Administrator and the President of the Bank shall prepare and  
9 transmit to the Speaker of the House of Representatives and  
10 the Chairman of the Committee on Foreign Relations of the  
11 Senate a report on the amount and extension of guarantees and  
12 insurance provided by the Bank and guaranteed under this  
13 section during the preceding 6-month period.

14     “(i) ADMINISTRATIVE AND TECHNICAL ASSISTANCE.--The Bank  
15 shall provide, without reimbursement, such administrative and  
16 technical assistance to the administering agency as the Bank  
17 and the Administrator determine appropriate to assist the  
18 administering agency in carrying out this section.

19     “(j) FEES AND PREMIUMS.--The Bank is authorized to  
20 charge fees and premiums, in connection with guarantees or  
21 insurance guaranteed by the administering agency under  
22 subsection (a), that are commensurate (in the judgment of the  
23 Bank) with the Bank's administrative costs and the risks  
24 covered by the agency's guarantees. Any amounts received by  
25 the Bank in excess of the estimated costs incurred by the

HR3402SUB

23

1 Bank in administering such guarantees or insurance--

2       “(1) shall be credited to the reserve fund  
3 established pursuant to subsection (d),

4       “(2) shall be merged with the funds in such reserve,  
5 and

6       “(3) shall be available for the purpose of payments  
7 by the administering agency to the Bank for guarantees  
8 under subsection (a).

9       “(k) RESTRICTIONS NOT APPLICABLE.--Prohibitions on the  
10 use of foreign assistance funds for assistance for Poland  
11 shall not apply with respect to the funds made available to  
12 carry out this section.

13       “(1) EXPIRATION OF AUTHORITY.--The President may not  
14 enter into any commitments to guarantee under subsection (a)  
15 after September 30, 1992.

16       “(m) DEFINITION.--For purposes of this section--

17       “(1) the term ‘administering agency’ means the  
18 Agency for International Development;

19       “(2) the term ‘Administrator’ means the  
20 Administrator of the Agency for International  
21 Development; and

22       “(3) the term ‘Bank’ means the Export-Import Bank of  
23 the United States.”.

24       (b) CONFORMING AMENDMENT.--Section 224 of that Act is  
25 amended by inserting “FOR CENTRAL AMERICA” after

HR3402SUB

24

1 ``PROGRAM`` in the section caption.

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

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

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

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

16 TITLE IV--EDUCATIONAL, CULTURAL, AND SCIENTIFIC ACTIVITIES  
17 SEC. 401. EDUCATIONAL AND CULTURAL EXCHANGES AND SISTER  
18 INSTITUTIONS PROGRAMS WITH POLAND AND HUNGARY.

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

21 (1) expand its participation in educational and  
22 cultural exchange activities with Poland and Hungary,  
23 using the full array of existing government-funded and  
24 privately-funded programs, with particular emphasis on  
25 the J. William Fulbright Educational Exchange Program,

HR3402SUB

25

1 the International Visitors Program, the Samantha Smith  
2 Memorial Exchange Program, the exchange programs of the  
3 National Academy of Sciences, youth and student exchanges  
4 through such private organizations as The Experiment in  
5 International Living, The American Field Service  
6 Committee, and Youth for Understanding, and research  
7 exchanges sponsored by the International Research and  
8 Exchanges Board (IREX); and

9 (2) take all appropriate action to establish  
10 binational Fulbright commissions with Poland and Hungary  
11 in order to facilitate and enhance academic and scholarly  
12 exchanges with those countries.

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

22 (c) AUTHORIZATION OF APPROPRIATIONS.--To enable the  
23 United States Information Agency to support the activities  
24 described in subsections (a) and (b), there are authorized to  
25 be appropriated \$12,000,000 for the 3-year period beginning

---

HR3402SUB

26

1 October 1, 1989, in addition to amounts otherwise available  
2 for such purposes.

3 **SEC. 402. POLAND-HUNGARY SCHOLARSHIP PARTNERSHIP.**

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

11 (b) **GRANTS TO STATES.**--In carrying out this section, the  
12 Administrator may make grants to States to provide  
13 scholarship assistance for undergraduate or graduate degree  
14 programs, and training programs of one year or longer, in  
15 study areas related to the critical development needs of  
16 Poland and Hungary.

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

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

24 (e) **NON-FEDERAL SHARE.**--The non-Federal share of payments  
25 under this section may be in cash, including the waiver of

HR3402SUB

27

1 tuition or the offering of in-State tuition or housing  
2 waivers or subsidies, or in-kind fairly evaluated, including  
3 the provision of books or supplies.

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

11 (g) PRIVATE SECTOR PARTICIPATION.--To the maximum extent  
12 practicable, each participating State shall enlist the  
13 assistance of the private sector to enable the State to meet  
14 the non-Federal share of payments under this section.  
15 Wherever appropriate, each participating State shall  
16 encourage the private sector to offer internships or other  
17 opportunities consistent with the purposes of this section to  
18 students receiving scholarships under this section.

19 (h) FUNDING.--Grants to States pursuant to this section  
20 shall be made with funds made available to carry out chapter  
21 1 of part I of the Foreign Assistance Act of 1961 (22 U.S.C.  
22 2151; relating to development assistance) or chapter 4 of  
23 part II of that Act (22 U.S.C. 2346 and following; relating  
24 to the economic support fund). In addition to amounts  
25 otherwise available for such purpose under those chapters,

HR3402SUB

28

1 there are authorized to be appropriated \$10,000,000 for the 3-  
2 year period beginning October 1, 1989, for use in carrying  
3 out this section.

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

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

14 SEC. 403. SCIENCE AND TECHNOLOGY EXCHANGE WITH POLAND.

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

- 19 (1) \$1,500,000 for fiscal year 1990,  
20 (2) \$2,000,000 for fiscal year 1991, and  
21 (3) \$2,000,000 for fiscal year 1992.

22 (b) DEFINITION OF AGREEMENT BEING FUNDED.--For purposes  
23 of this section, the term "1987 United States-Polish science  
24 and technology agreement" refers to the agreement concluded  
25 in 1987 by the United States and Poland, entitled "Agreement



HR3402SUB

29

1 Between the Government of the United States of America and  
2 the Polish People's Republic on Cooperation in Science and  
3 Technology and Its Funding'', together with annexes relating  
4 thereto.

5 **TITLE V--OTHER ASSISTANCE**

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

8 (a) **AUTHORIZATION OF ASSISTANCE.**--In addition to amounts  
9 otherwise available for such purposes, there are authorized  
10 to be appropriated to carry out chapter 4 of part II of the  
11 Foreign Assistance Act of 1961 (22 U.S.C. 2346 and following;  
12 relating to the economic support fund) \$12,000,000 for the 3-  
13 year period beginning October 1, 1989, which shall be  
14 available only for the support of democratic institutions and  
15 activities in Poland and Hungary.

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

19 **SEC. 502. ENVIRONMENTAL INITIATIVES FOR POLAND AND HUNGARY.**

20 (a) **EPA ACTIVITIES GENERALLY.**--In addition to specific  
21 authorities contained in any of the environmental statutes  
22 administered by the Environmental Protection Agency, the  
23 Administrator of that Agency (hereafter in this section  
24 referred to as the ``Administrator'') is authorized to  
25 undertake such educational, policy training, research, and

HR3402SUB

30

1 technical and financial assistance, monitoring, coordinating,  
2 and other activities as the Administrator may deem  
3 appropriate, either alone or in cooperation with other United  
4 States or foreign agencies, governments, or public or private  
5 institutions, in protecting the environment in Poland and  
6 Hungary.

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

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

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

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

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

23 (1) up to \$3,000,000 in each of fiscal years 1990,  
24 1991, and 1992 of funds authorized to be appropriated  
25 under the Clean Water Act, and

HR3402SUB

31

1 (2) up to \$1,000,000 of funds authorized to be  
2 appropriated to the Environmental Protection Agency under  
3 other authorizing statutes.

4 (e) DEPARTMENT OF ENERGY ACTIVITIES.--

5 (1) CLEAN COAL.--The Secretary of Energy shall  
6 cooperate with Polish officials and experts to retrofit a  
7 coal-fired commercial powerplant in the Krakow, Poland  
8 region with advanced clean coal technology that has been  
9 successfully demonstrated at a comparably scaled  
10 powerplant in the United States. Such retrofit shall be  
11 carried out by one or more United States companies using  
12 United States technology and equipment manufactured in  
13 the United States. The Secretary may vest title in any  
14 property acquired under this paragraph in an entity other  
15 than the United States.

16 (2) EQUIPMENT ASSESSMENT.--The Secretary of Energy  
17 shall cooperate with Polish officials and experts and  
18 companies within the United States to assess and develop  
19 the capability within Poland to manufacture or modify  
20 boilers, furnaces, smelters, or other equipment that will  
21 enable industrial facilities within Poland to use fossil  
22 fuels cleanly. The Secretary may vest title in any  
23 property acquired under this paragraph in an entity other  
24 than the United States.

25 (3) AUTHORIZATION OF APPROPRIATIONS.--To carry out

HR3402SUB

32

1       this subsection, there are authorized to be appropriated  
2       \$30,000,000 for the 3-year period beginning October 1,  
3       1989. Not more than \$10,000,000 of the funds appropriated  
4       under this paragraph may be used to carry out the  
5       requirements of paragraph (1).

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

8       (a) **AUTHORIZATION OF ASSISTANCE.**--In addition to amounts  
9       otherwise available for such purposes, there are authorized  
10      to be appropriated to carry out chapter 4 of part II of the  
11      Foreign Assistance Act of 1961 (22 U.S.C. 2346 and following;  
12      relating to the economic support fund) \$6,000,000 for the 3-  
13      year period beginning October 1, 1989, which shall be  
14      available only--

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

20       (2) for training of Polish medical personnel.

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

24       **TITLE VI--OTHER PROVISIONS**

25   **SEC. 601. AID ADMINISTRATIVE EXPENSES.**

HR3402SUB

33

1 For the purpose of carrying out its functions under this  
2 Act, the Agency for International Development may use up to  
3 \$500,000 each fiscal year of the funds authorized to be  
4 appropriated by this Act that are appropriated to the Agency.

5 SEC. 602. ANNUAL REPORTS TO CONGRESS.

6 The President shall submit an annual report to the  
7 Congress on the actions taken pursuant to this Act. This  
8 report shall be submitted not later than January 31 each  
9 year, beginning in 1991.

10 SEC. 603. COORDINATION BY SECRETARY OF STATE.

11 The Secretary of State shall coordinate the assistance  
12 for Poland and Hungary provided for in this Act.

## Appendix 8

November 16, 1989

POLAND/HUNGARY DRAFT LEGISLATION  
(IN MILLIONS OF DOLLARS)

	H.R. 3402	S. 1582	Compromise	H.R. 2939 (Approp.)
<b>Section</b>				
<b>101 - Structural Adjustment</b>				
- food aid	125	125	125	
- Exchange Stabilization (FY 1990)	200	200	200	200
201 - Enterprise Funds	200	325	300	50
202 - Labor	5	5	5	1.5
203 - Technical Training	10	5	10	3
204 - Peace Corps	6	3	6	2
305 - TDP	6	0	6	2
401 - Education and Culture	12	7	12	3
402 - Scholarships	10	1	10	2
403 - S&T	8	8	8	State Bill
501 - Democracy	12	12	12	4
502 - Environment				
EPA	10	8	10	3.3
DOE	30		30	0
503 - Medical	6	4	4	2
Telecommunications	0	25	0	0
<i>Requires Appropriation</i>	<i>640</i>	<i>728</i>	<i>738</i>	<i>272.8</i>
304 - Trade Credit Insurance (No appropriation)	(200)	0	(200)	(200)
<b>TOTAL</b>	<b>\$840</b>	<b>\$728</b>	<b>\$938</b>	<b>\$472.8</b>

## APPENDIX 9

Letter to Rep. Dante B. Fascell (D-Florida) from  
Mr. David Mulford, Under Secretary for International  
Affairs, Department of Treasury

The Honorable Dante B. Fascell  
Chairman, Foreign Affairs Committee  
House of Representatives  
Washington, D.C. 20515

Dear Mr. Chairman:

I am writing to reemphasize the strong support of the Administration for Poland as it seeks to implement its economic reforms.

As you are aware, the Administration strongly supports the process of political liberalization and market oriented economic reform which is currently underway in Poland. In this vein, the President announced a number of initiatives last week to support Poland during this critical period.

In addition to measures which the President announced, I would like to advise you that the Treasury Department is willing to consider the use of the Exchange Stabilization Fund (ESF) as a part of a multilateral bridge loan for Poland, in circumstances consistent with the existing legislation, policies and practices guiding the use of the ESF. Such bridge loans must have an assured source of repayment which is generally provided by funds of the International Monetary Fund and World Bank.

We have been in close contact with these institutions and are monitoring closely their efforts to work with the Poles in developing an economic reform package for the Polish economy. As soon as we have a letter of intent approved and in place we will look closely and promptly at a multilateral bridge loan for Poland to help meet its financing needs.

We very much welcome and appreciate your interest and your efforts in shaping Congressional support on this issue. I look forward to working closely with you in this effort.

Sincerely,

  
David G. Mulford  
Under Secretary  
International Affairs