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AID FOR POLAND: HOW MUCH? WHAT KIND?

By now, all the world knows of Poland's economic despair, and of the enormous pressure on Poland's new democratic leaders to halt the plunge of Polish living standards. And the world knows, too, of the dilemma faced by Poland's new Prime Minister, former Solidarity leader Tadeusz Mazowiecki. While he moves to dismantle the Communist Party's remaining hold on power and to transform the Polish economy from the failed Stalinist model to a free market system, he faces enormous obstacles that threaten to sweep away him and the democratic movement. The question for the United States, therefore, is not whether it should help Poland. It is clear that it must. The question is how much and what kind of aid will alleviate Poland's immediate suffering while ensuring the survival of Poland's democracy, its economic growth, and its escape from Soviet control.

It is not enough for American aid to make some symbolic point or to provide moral support. Rather, such assistance should be tailored to help Poland use its own resources to grow out of its economic crisis. Otherwise, the economic reforms in Poland will fail and that country will join the ranks of those Third World nations perpetually on the international dole. This must be what guides the White House as it crafts its policy toward Poland and the House of Representatives, which is scheduled to vote this week on a bipartisan bill to assist Poland and Hungary. The Senate has yet to schedule a vote on the bill, which passed the Foreign Relations Committee in late September.

Food Assistance. Many Western countries, including the U.S., are sending surplus food to Poland. The humanitarian impulse behind this is admirable. The problem is that these measures will prolong Poland's food shortages by depressing agricultural prices and reducing incentives for Polish farmers to produce more crops. This is the lesson of three decades of tragic Third World agricultural programs. What Poland needs from the West is vouchers with which the Polish government could purchase food on the domestic and international markets. Food sellers could exchange these vouchers for hard currency from the U.S. and the West. This would create direct incentives to Polish farmers to produce more because they would be paid in a currency that they want. As important, it would bring domestic prices in line with the international market.

Debt Relief. Poland is struggling with a crushing hard currency debt of \$41 billion; it cannot pay even the interest. Yet, Poland needs new hard currency to revive its economy and import basic consumer goods. Lending Poland more money and adding to its debt is no answer, as the U.S. and the West frustratingly have learned from wrestling with the Third World debt problem. Instead, the U.S. should help Poland by granting a moratorium on debt payments and encouraging debt write-downs and debt-equity swaps, in which the West's holders of debt obligations exchange them for Polish currency or productive assets. The Polish government is eager to make use of this process, and the fire-sale prices of Polish state-owned enterprises are an attractive alternative to near-worthless loans.

The real value of Poland's debt, in fact, is considerably less than the numbers suggest, as the commercial debt currently trades for a fraction of book value. Approximately \$25 billion of the

total debt are direct loans from West European governments and loan guarantees. The U.S. government is owed \$2.2 billion, most of which is in Commodity Credit and Export-Import Bank credits. The U.S. repeatedly warned the West European governments in the 1970s not to lend Poland more than it would be able to repay. Washington's advice was ignored. Now, the U.S. government should urge the West Europeans to assist Poland by admitting their mistake, accepting their losses, and writing off the loans.

Reduction of Trade Barriers. Poland can grow out of its poverty and earn hard currency by exporting goods. When it tries to do so, however, it slams into tariffs and quotas in such sectors as agricultural products, where Polish potential is greatest. Here the U.S. is a major culprit. U.S. tariffs and quotas on imports from Poland thus should be reduced or abolished.

Guest Workers. The U.S., and West European nations in particular, could help Poland earn hard currency through a guest worker program. With a labor surplus, Poland could send workers to temporary employment in the West. Typically, a major portion of guest worker earnings are sent home. Expanding existing programs would allow more Poles to work in the U.S. A single worker in the West, earning even a modest salary, can support an extended family in Poland.

Each of the proposals by the Bush Administration and Congress for assistance to Poland include creation of an "enterprise fund" to provide loans for Poland's emerging private sector. To ensure that the Polish government is taking appropriate action to move its economy toward a free market, the U.S. government should establish criteria to judge Poland's progress toward this goal. These criteria also could serve Poles as guidelines to help them set priorities and maintain direction. These criteria should include:

- ◆ ◆ Establishment of security of property rights and contract, including the right to acquire and dispose of private property in all its forms. Private property is the surest link between effort and reward. These rights can only be enforced by an independent judiciary.
- ◆ ◆ Reforming the state's regulation of the private sector to remove restraints on competition and to permit unhindered entry to, and exit from, the market.
- ◆ ◆ Elimination of wage and price controls.
- ◆ ◆ Creation of a tax system that does not penalize entrepreneurial activity, including reducing the present 50 percent tax on profits.
- ◆ ◆ Removal of such barriers to foreign trade as tariffs and quotas and allowing private businesses to import and export freely.
- ◆ ◆ Elimination of restrictions on investment and the movement of capital, including the repatriation of profits by foreign investors.
- ◆ ◆ Creation of a private banking system.
- ◆ ◆ Privatization of the state sector by selling or leasing state-owned enterprises to Poles or foreign investors. Currently, over 90 percent of Poland's industry is owned by the state.

The U.S. has an opportunity to help ensure the success of democracy in Poland by providing desperately needed assistance. But it must structure this aid carefully so that it alleviates Poland's problems rather than perpetuates or exacerbates them. None of the existing proposals from the White House or congressional committees will render effective assistance to Poland. Congress should seize the opportunity to rethink and correct these proposals.

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