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United States Senate

COMMITTEE ON BANKING, HOUSING, AND
URBAN AFFAIRS

WASHINGTON, DC 20510

August 15, 1985

The Honorable Zdzislaw Rurarz
The Jamestown Foundation
1708 New Hampshire Avenue, N.W.
Washington, D.C. 20009

Dear Ambassador Rurarz:

You are invited to testify before the Senate Committee on Banking, Housing, and Urban Affairs at its legislative hearing on S.812, the Financial Export Control Act. The hearing will be held Thursday, September 26, 1985, at 9:30 a.m. in Room SD-538 of the Dirksen Senate Office Building.

The Financial Export Control Act would authorize the President to control the making of loans and other transfers of capital to the Soviet Union and its allies. These countries have made it clear that these loans, at least in part, facilitate their purchases of Western technology. Since our defense is based in large measure on the technological advantage of our weapons, this technology transfer erodes our security.

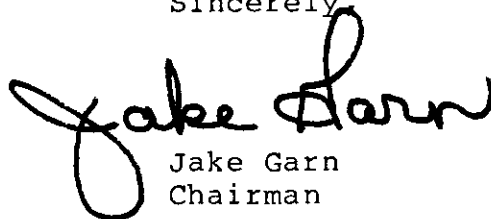
The Committee would be interested in your insights on the typical uses the Soviet Union and the Eastern European countries make of the loan moneys that they receive from the West. To what extent do such loans contribute to the military strength of these countries? In what other ways might such loans be harmful to the interests of the United States and our allies? Should the President be given authority to control capital transfers to these countries? To what extent do loans to Eastern European countries benefit the Soviet Union? Based upon your unique experience, your views will be of great benefit to the Committee.

In accordance with Committee rules, your oral statement should be limited to between five and ten minutes, while your written statement may be more extensive. Also in accordance with Committee rules, 75 copies of your written

The Honorable Zdzislaw Rurarz
August 15, 1985
Page Two

statement should be delivered to the Committee 24 hours in
advance of the hearing.

Sincerely,

A handwritten signature in black ink that reads "Jake Garn". The signature is written in a cursive style with a large, looping initial "J".

Jake Garn
Chairman

Enclosures

JG/wac

WITNESS LIST
LEGISLATIVE HEARING ON S.812
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
THURSDAY, SEPTEMBER 26, 1985
9:30 a.m.

Mr. RICHARD V. ALLEN
Former Assistant to the President for
National Security Affairs

PANEL CONSISTING OF:

The Honorable ZDZISLAW M. RURARZ
Former Polish Ambassador to Japan

Mr. HOWARD J. RUFF
Chairman, Free the Eagle Citizen's Lobby

PANEL CONSISTING OF:

Mr. WILLIAM J. MCDONOUGH
Executive Vice President & Chief Financial Officer
First Chicago Corporation

Mr. GEORGE J. CLARK
Executive Vice President
Citibank, N.A.

Dr. Zdzislaw M. Rurarz
The Jamestown Foundation
1708 New Hampshire Ave., N.W.
Washington, D.C. 20009
Res. 860-1893

September 11, 1985.

The Honorable
Jake Garn
Senator of the United States
Chairman of the Senate Committee on Banking,
Housing, and Urban Affairs
Washington, D.C. 20510

Dear Senator Garn,

I apologize that I was unable to answer your letter of August 15, 1985 immediately but I was on vacations and soon afterwards left for Oklahoma City. Therefore, only on Monday, September 9, I could read your letter. I also promptly telephoned your office to confirm that I would be present for the hearings scheduled on September 26. I also informed your office that apart of my brief oral statement I would also forward a brief written statement for the use by your Committee.

The statement is attached herewith. I would ask you to waive the requirement that such a statement should be delivered in 75 copies. This creates some technical difficulties to me.

Once again I thank you very much for your invitation to testify and all your questions in the letter I have tried to answer in the attached text. Should the need be, I can elaborate more on them orally.

Sincerely,

Dr. Zdzislaw M. Rurarz
former Ambassador of Poland
to Japan

1 enclosure

STATEMENT BY DR. ZDZISLAW M. RURARZ, FORMER AMBASSADOR OF POLAND TO JAPAN, BEFORE THE COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS OF THE UNITED STATES SENATE AT ITS LEGISLATIVE HEARING ON S.812 HELD ON THURSDAY, SEPTEMBER 26, 1985, AT 9:30 a.m., DIRKSEN SENATE OFFICE BUILDING, WASHINGTON, D.C.

Mr. President,

I am greatly honored for being invited to testify before your Committee in relation with hearings on S. 812.

For obvious reasons, I cannot recommend anything concerning the draft piece of the legislation, but I will avail myself to answer briefly the questions posed to me by Senator Jake Garn, Chairman of the Committee, which he addressed to me on August 15, 1985.

But before I answer those questions, I should like to make a few introductory comments. Specifically, on issues raised in the Frederick Kempe's article "East Germans Benefit From U. S. Bank Credits that Don't Call For Human Rights Concessions", as published by The Wall Street Journal on March 19, 1985.

Referring to its purely economic side only, I can wholly confirm all the author's observations and conclusions and add another observation on my own.

Namely, F. Kempe in one place says that: "...East German economic reporting remains imprecise".

That is absolutely true, except that this is true of all the Soviet Bloc countries.

May I state in this place, that all the statistical data officially published, with many not published at all, are more or less "doctored". This is being done not only by respective professionals

from various civilian bodies dealing with such publications, but by specialists from intelligence and counter-intelligence services as well. The statistical data are arranged in such a way that they are as far from the truth as possible and in general are a deliberate disinformation ploy, targeted mostly at the West.

Moreover, even those responsible for the mentioned "doctoring" of statistics, do not know the truth either. This is because the lower echelons, that is factories and other reporting units, perennially lie before upper echelons.

Let me give the example to this end from the USSR itself.

Thus the daily organ of the Soviet Government Izvestia writes on July 12, 1985 the following:

"...Annual plan/in the Frunze wood plant of the Kirghiz Republic/ was reported as fulfilled in 103.6 per cent, while in fact was fulfilled in 93.9 per cent only...In 1983 statistical reports on cargo shipments in 925 truck enterprises belonging to 34 ministries were controlled and in 560 of them, that is in 60 per cent of the total, the "pripiski", or upwardly falsified data, were established".

Most naturally, the overall falsification of statistical data cannot be revealed by anything like Izvestia and not only for political reasons, but because there is really nobody in the USSR, or elsewhere in the Soviet Bloc, who truly knows the truth to this end.

The above quoted example is only the tip of the iceberg.

For example, I was told by some very well-informed Bulgarians in 1981 that in 1980 the Bulgarian economy registered no growth whatsoever. Nevertheless, the political decision was to publish the GNP's growth at 5.7 per cent.

Hence I doubt strongly that the performance of East Germany's

economy is as much vigorous as reported, especially in the domain of the productivity of labor which looks to me suspiciously high.

I am rather inclined to believe that East Germany deliberately disseminates this kind of disinformation in order to attract fresh credits to its would-be robust economy, which in fact is a very ailing one.

By the way, it is not for the first time that the Communist countries play the same trick. It is only to be wondered why so many in the West cannot detect this and despite of some seven decades of experience.

Why certain US banks may know East Germany better than its brethren in West Germany, remains a mystery to me.

Another comment I should like to make it is that the Soviet Bloc economies are in such a poor shape, and more is to come, that they simply are a great commercial risk to any creditors. Careful readings of Bloc's own statements, like those delivered at the 40th Comecon session in Warsaw last May, or those delivered by Gorbachev himself, especially the one on June 11, confirm that. Even "doctored" statistics must admit partly the truth to this end.

Mr. President,

Having first-hand experience with the so-called socialist economy I can assure you that unless central-planning is not abandoned and the economy not reprivatized, such an economy has no future before it.

Moreover, with dwindling supplies of fuels, raw materials and labor, the Soviet Bloc economies, some of them also burdened with external debts, are going to perform even still more poorly. Very soon some other factors may be at work as well. Namely, the adverse

effects of stagnation and even fall in real wages, inadequate level of investments and continuing increase in defense spendings. In sum, all the above may bring about the so-called negative growth of the Soviet Bloc economies, if this is not the case already now, although deceitfully concealed by "doctored" statistics.

As to other aspects of the issue under consideration, may I merely say that in the seventies the West extended loans to the Soviet Bloc somewhere in the range of 80 billion dollars, what is an equivalent of some 50 thou. tanks.

I do not think any comment is necessary here.

Mr. President,

Let me now pass to the questions posed in the said letter to me.

Question No. 1: To what extent do loans contribute to the military strength of the Soviet Bloc countries?

Answer: It is already well-known that Soviet Bloc countries, the USSR especially, have very much war-oriented economies. On the average, those economies are at least twice as much burdened with war spendings than is the case in the West. Adding to this all other spendings, like for security police and the like, the burden is even still higher.

Therefore, any loans to such economies mean relief to them. Moreover, on many occasions they can be the only way those economies may acquire necessary capital and know-how to start certain productions of arms and munitions. Centrally-planned and managed economies can easily shift resources from one domain into another one and hence any opportunity to receive external financing of any sort is a boost to them, in many instances primarily in defense sector.

These are the truisms but they should be repeated all the time.

Question No. 2: In what other ways might such loans be harmful to the interests of the United States and her allies?

Answer: The Soviet Bloc, especially its center the USSR, is hostile toward the United States and the West in general and to the point threatening their very existence.

In such a situation, anything helping the Bloc's military might, whether directly or indirectly, should be viewed accordingly.

Should the Bloc be willing to abandon its politico-strategic goals and its nonsensical socio-economic system, then one might ponder helping it with loans, even on concessionary terms.

But nothing like that is the case and it is hard to see any encouraging signs to this end. On the contrary, all the official pronouncements, Soviet in particular, do not promise any change in the past and present attitudes. On the contrary, it looks, at least I am convinced of that, as the Soviet economy move to something like a war footing. Even Poland's battered economy makes the same impression.

For this simple reason, anything like fresh Western loans, US first of all as some unfortunate examples of recent times suggest, would boost the Bloc's war effort. Especially, that the Bloc acts on a highly selective basis and knows perfectly well what it wants. Western businesses and banks may think the Bloc dances as they play. I am pretty sure it is the other way round.

May I also add that the Bloc's ability for selective approaches have also the other side of the coin. Namely, the Bloc deliberately creates various lobbies and pressure groups by concentrating certain of its imports and exports in certain countries or even certain com-

panies and banks only.

That such selective approaches can be detrimental to the United States and her allies, goes without saying.

Question No. 3: Should the President be given authority to control capital transfers to the Soviet Bloc?

Answer: Having had a long experience in foreign economics and politics, I cannot believe that in the contemporary world anything like "pure" trade and finance flows exist. They surely do not exist in the Soviet Bloc. Politics has even the precedence over economics in this case.

With all the respect for the smartness of private businesses of all kinds, I am absolutely sure that in the end they are not an equal partner to State-trading organizations behind which all the State power is hiding.

By saying this, I am of course aware of the fact that particular companies, or even particular businessmen, may truly benefit from economic relations with the Soviet Bloc. But any expanded relations of this sort, with loans being indispensable prerequisite to them, as the Bloc's import ability could be otherwise very meagre, cannot be really left at the mercy of fate only. Should this be the case, the fateful consequences of that can be easily anticipated.

Mr. President,

When reading your question I was somehow taken aback, because I simply cannot imagine that the President of a global power could have no authority to control loans extended to another global power whose hostile intentions toward this country are not a secret to anybody with minimum dose of a common sense.

Well, such an authority, in my view, is already long overdue.

Question No. 4: To what extent do loans to Eastern European countries benefit the Soviet Union?

Answer: In the light of all the above my answer cannot surprise anybody. Eastern Europe is Soviet-dominated. Thus anything helping it may help ultimately the USSR. The only exception can be humanitarian aid and independently distributed, like for example by the Catholic Church in Poland. But such a humanitarian aid is not to the liking of the Bloc, or more specifically the Soviets.

Apart from such times and countries where US loans could help Eastern Europe become freer, something rather only faintly possible, one must be prepared otherwise for the situation where any loans and transfers of know-how, frequently financed by them, finally benefit the USSR.

One must remember that almost half of the capital goods and know-how imported by the USSR originates in Eastern Europe. In chemical products the proportion is even higher and in all other industrial products the situation is fairly similar to that one in capital goods.

It is then quite normal that anything boosting Eastern Europe's production, agricultural including, as the USSR shows ever greater interest in imports of food from Eastern Europe, must benefit the USSR. Especially, that Eastern Europe's economies are so much dependent on the Soviet economy that they have hardly any other alternative than to comply with Soviet demands. And the Soviets demand ever more products and ever better ones. Moreover, they also demand from Eastern Europe to participate in the so-called joint investments in the USSR in various projects. It may thus happen that loans to Eastern Europe enable it to credit the USSR in turn.

At the same time I would strongly advocate, and precisely for the reasons mentioned above, that the President could have discretionary powers concerning loans to Eastern Europe and could maneuver with them as his policy options might be opportune.

Mr. President,

This is a very delicate problem. Although I have clearly said that anything Eastern Europe gets may ultimately land in the USSR, one should at the same time have the eyes and ears widely open and seize any opportunities as they might surface.

There are always the exceptions from the rules and particularly this country cannot afford for the luxury of not making use of this proverbial wisdom.

I would be only glad to elaborate more on that orally, should such a need arise.

Mr. President,

In conclusion, I should like to repeat once more that the Soviet Bloc economies are in a very poor shape and everything suggests that their shape will be even still poorer.

At the same time, nothing suggests that they have come to reasons and embarked on the path of genuine change.

For these simple reasons bailing them out of trouble by fresh loans, as I can figure out rather not too well-thought, would be even more reckless than the case was in the past where some still believed that not enough experience existed.

It is unimaginable for me that the President of the United States could be deprived of the control over the resources of his country transferred to the hostile Bloc. National security, I understand, is

indivisible.

It is not in the best interest of this national security to transfer the resources from this country to the Bloc in question where not only its combativeness cannot be reduced because of that, but actually can be only increased and even the loans themselves never repaid.

Yet, I do not exclude a possibility that in certain times and under certain circumstances such transfers may be the case. But the decision to this end cannot be left to the judgement of the people whose perceptions of various issues are understandably limited and whose even sound purely commercial judgement can be impaired as well because of the lack of proper information and abundance of disinformation.

I thank you, Mr. President.

Dr. Zdzislaw M. Rurarz
The Jamestown Foundation
1708 New Hampshire Ave., N.W.
Washington, D.C., 20009
Res. 860-1893

September 29, 1985.

Mr. Edward M. Malan
Senate Committee on Banking, Housing,
and Urban Affairs
Room SD 534
Dirksen Senate Office Bldg.
Washington, D.C., 20510

Dear Mr. Malan,

Thank you very much for the transcript of
my remarks before your Committee on September 26, 1985.

Attached herewith, you will find my slight
corrections/the respective pages marked on the cover just above "VO-
LUME"/. On the left side of the pages concerned, you will find red
pencil "V" marks in lines where necessary and the respective correc-
tions done with black pencil.

I would also ask you, should my written sta-
tement be incorporated in the Records, dated of September 11, 1985,
which I forwarded to you, that whenever "Mr. President " is used that
this be changed into "Mr. Chairman".

Once again I thank you for the invitation
to testify and would be obliged to get the respective Congressional
Record.

Sincerely,

Dr. Zdzislaw M. Rurarz
former Ambassador of Poland
to Japan

1 enclosure

United States Senate

COMMITTEE ON
BANKING, HOUSING, AND
URBAN AFFAIRS

Sept 27, 1985

To: Zdzislaw M. Rurary

Attached is a transcript of your remarks given before this committee. You may make changes for the purpose of correcting grammatical errors, obvious errors of fact and errors of transcription.

If you have any correction you would like reflected in the printed hearings, these corrections must be received at the committee by 10-7-85. Minor corrections may be forwarded by telephone. *The committee cannot assure that corrections received after this date will be included.*

If during your testimony you:

1. Offered to submit additional material—
2. Were requested to submit additional material—
3. Were requested to respond to written questions from the committee—

Please return that material with the transcript.

Material to be supplied is referred to on page(s):

Please return to:

EDWARD M. MALAN
Senate Committee on Banking, Housing, and
Urban Affairs
Room SD 534, Dirksen Senate Office Building
Washington, D.C. 20510
Phone: 202-224-1578 or 1579