

## POLISH DEBT CRISIS

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TUESDAY, MARCH 2, 1982

U.S. SENATE,  
SUBCOMMITTEE ON FOREIGN OPERATIONS,  
COMMITTEE ON APPROPRIATIONS,  
*Washington, D.C.*

The subcommittee met at 10 a.m., in room 1318, Everett McKinley Dirksen Senate Office Building, Hon. Robert W. Kasten, Jr. (chairman) presiding.

Present: Senator Kasten.

### NONDEPARTMENTAL WITNESSES

#### OPENING STATEMENT OF SENATOR KASTEN

Senator KASTEN. The subcommittee will come to order.

This morning we will continue our hearings which began on February 9, 1981, when we received testimony from the Departments of Defense, State, Treasury, and Agriculture on the Polish debt situation and our policy toward Poland, Eastern bloc countries and the Soviet Union vis-a-vis financial credits.

Today we are fortunate to have three distinguished nongovernmental witnesses, who will present testimony on the situation in Poland as they see it, both with respect to the debt situation, but more generally on the current situation in that troubled country.

#### INTRODUCTION OF WITNESSES

These witnesses are, first of all, Mr. Jan Nowak, who is a consultant to the National Security Council and a national director of the Polish American Congress. Mr. Nowak has had a distinguished career. He was the director of the Polish Division of Radio Free Europe, editor of the Polish Service of the BBC, member of the Polish resistance movement during World War II, and the emissary of the commander-in-chief of the Polish Home Army to the allies, among other things. Mr. Nowak is recognized as one of the foremost experts on Polish affairs in the United States.

The Hon. Zdzislaw Rurarz, the former Polish Ambassador to Japan, who courageously defied the current military government by seeking political asylum in the United States; and Prof. Wojciech Karpinski, a visiting professor at Yale University, who was an active member of Solidarity as a writer, lecturer, and advisor.

We are especially honored to have these gentlemen with us today, and I am confident they will add greatly to our knowledge of the situation in Poland.

U.S. FIRMER RESPONSE TO POLISH CRISIS

Since this subcommittee last held hearings on the Polish debt situation, a number of events have occurred concerning the Polish crisis; the most important being the development of a general consensus that the United States must take a firmer stand in its foreign policy toward the military dictatorship in Poland, the Eastern bloc and, most especially, the Soviet Union.

DEBT DEFAULT DECLARATIONS

More specifically, with respect to the debt situation, it is interesting to note that President Reagan personally intervened in similar financial dealings concerning Romania by refusing to provide additional credits and demand that the country pay its arrearages. I have no doubt that this action by the President was influenced, in part, by our efforts, both through congressional hearings and action on the floor of the Senate.

Since we highlighted this issue 3 weeks ago, a number of congressional bodies have undertaken hearings on this question. A number of my colleagues who originally did not support our efforts on the floor of the Senate have now indicated that they would be willing to do so in a similar effort.

What I am suggesting is that we are making progress. I intend to continue my efforts in this area, and, as an additional step, will introduce legislation this afternoon which seeks to require default declarations, not only with respect to Poland, but with respect to any country which refuses to pay its debts.

Our first witness is Mr. Nowak. Mr. Nowak, if you would come forward and begin your testimony.

POLISH AMERICAN CONGRESS

STATEMENT OF JAN NOWAK, CONSULTANT TO THE NATIONAL SECURITY COUNCIL AND NATIONAL DIRECTOR OF THE POLISH AMERICAN CONGRESS

QUESTIONS ON POLISH SITUATION

Mr. NOWAK. Mr. Chairman, I appreciate very much this opportunity of testifying before the subcommittee on Poland. I propose to address myself to the following questions: What has been achieved by Moscow and by the junta, at what expense, and what is the situation as of today?

Two, what is the strategy, tactics, and objectives of the underground Solidarity?

Three, what are the possible options in the future for the Soviet policy, and how U.S. policy may influence the further course of events?

And finally that would bring me to the basic question: What should be done with the Polish debts?

I should skip historical analysis. I think it is established by sufficient evidence that the decision of the military takeover was taken in Febru-

have no coordination of their statement, they are unanimous in, first, supporting sanctions, and second, to use sanctions of their own. They do realize that in the short run people will suffer, and the people are aware of it, but this is the only way to avoid something much worse in the long run.

#### ACTIONS BY CATHOLIC CHURCH

In other words, only in this way can they really compel the authorities to go back to some kind of economic reforms which would make the system more efficient and working, and one should not be guided by the church in this respect. In the first place, the church cannot possibly support the sanction. That would mean that they would break any communication with the authorities, and they must be there, because they are the only remaining spokesman for any kind of dialog.

Also, it would be wrong to expect that the Pope would openly support a political measure of any kind. He can argue only from the purely moral point of view.

Senator KASTEN. I would like to thank you for your statement, and express to you how much we appreciate you agreeing to be with us today. There may, Mr. Nowak, be additional questions from other Senators who were unable to be with us today. We will forward those questions to you in writing and hope that you could respond in writing for the purposes of our record. I thank you again for your testimony.

#### INTRODUCTION OF AMBASSADOR RURARZ

I would like now to ask Ambassador Rurarz to come forward. Mr. Ambassador, it is a great privilege for us to have you here. The courageous position that you and your countrymen have taken, but you personally, I know is a great sacrifice. It is interesting to me that here we are in a room with two people, maybe more than two, whose lives could be in danger. Clearly, under different kinds of circumstances, right now you and others could be under detention or worse.

It is my understanding that even here in this room we have representatives of the present Polish government. We have representatives of probably other Eastern satellite groups. It is just incredible to me to think that here we are in the United States of America, and how different it is right at this moment in Poland and throughout the Soviet bloc.

We are pleased to have you here, and if you could make just a brief comment—I know that you do not have a prepared statement—and then respond to a few questions.

## FORMER POLISH AMBASSADOR TO JAPAN

## STATEMENT OF HON. ZDZISLAW RURARZ

## WEST BEING TESTED

Ambassador RURARZ. I thank you, Mr. Chairman, for your kind words, and may I say that by deciding on the steps which I took, I just decided not to retreat before anybody or anything, and I am not deterred by anybody's presence in this room, and I would be speaking my mind, as much as I believe in.

Now, when it comes to the few remarks which I am going to make, may I say that I fully share what Mr. Nowak, my predecessor, said, and what you, Mr. Chairman, were saying, but let me add this. Right now the Soviets and the Polish military junta is putting the free countries before a test. When they were deciding to start with the military crackdown, they certainly knew very well what Poland's economic situation was. Not only the GNP was dropping for the second consecutive year, but at the same time they knew that, for instance, for this year only, 1982, Poland would need, as Mr. Nowak was saying, \$16 billion in rescheduling of new credits, and certainly they must have known that by the military crackdown, the free countries would be unwilling to come to Poland's help to the extent as originally they believed it would be necessary. I mean, the \$16 billion of rescheduling of new credits.

Nevertheless, they have decided on a crackdown. I must say that from the very beginning they calculated, and unfortunately those traitors from the military junta, they sided with the Soviet view that the Polish nation must suffer and must pay a very high price for the would-be restoration of socialism and alliance with the U.S.S.R., which, by the way, were never that much threatened by the Solidarity activities and the other democratic forces, because they were quite realistic, and they knew that there were certain limits to some of the changes in Poland.

Nevertheless, they have decided to make the Polish people suffer. Now, they try to make the free countries the hostage of the Polish difficulties, and they are complaining that if the United States would be not proceeding with the sanctions, and if some of those sanctions were not followed by other Western countries, of course, the Polish people would be living better.

Mr. Chairman, may I say this? Only during this visit by Jaruzelski in Moscow, he is saying that Poland will continue on their Marxist-Leninist science path.

## MARXISM-LENINISM THEORY

Mr. Chairman, I belong to those who know Marxism-Leninism not only in theory but in practice. I myself have read Lenin three times. I could quote from my memory various, let's say, would-be thoughts by Lenin. Believe me, there is no science of Marxism-Leninism. This is a complete misunderstanding. This is the sick ideology serving the Soviet imperialist interests.

Therefore, there is no chance that any improvement in Poland would happen under the would-be socialism and the alliance with the

U.S.S.R., and especially if the military junta stays. Poland would be practicing the state of war.

But I am not even that formalistic, and I believe that even if Jaruzelski is replaced by a civilian and a state of war is officially lifted, then there are other measures, the arsenal here is very rich, and there might be some restoration of Stalinism or something like that which formally would be not a state of war or military junta.

So there is no chance of any improvement in Poland as long as the military junta and the communists of Poland are following the Soviet orders as they seem to follow very dutifully.

#### POLAND'S ROLE IN EAST-WEST WAR IN EUROPE

Therefore, there is now a crucial test before the West: What to do. I largely agree with what Mr. Nowak already said. May I say that I know very well what would be the role of Poland in the situation of war against NATO countries. The Polish army is supposed to be the so-called second wave of attack against Western Europe. The Soviets know too well how much value the Polish army is to the Soviet objectives during a blitzkrieg against the West. Therefore, they would be doing absolutely everything to have this army operational and following Soviet orders.

Certainly, the situation in Poland makes that army hardly operational for Soviet purposes. If the situation in Poland stays difficult and even more difficult than it is at present, the Soviet strategy, military objectives, against the West are greatly foiled. Therefore, I believe the West should do everything that is possible to make the situation for the Soviets as difficult as possible by refusing them and, of course, the Polish military junta, any economic help.

#### POLAND'S INDEBTEDNESS

Coming to Poland's debts, well, I think that Poland technically is already in default. You cannot prolong that situation for an indefinite period of time, that somebody would be somehow refinancing Poland's debt. Certainly, this is not helpful to you, and this is not helpful to Poland herself.

May I say this, that within the Polish establishment there is a belief that whatever they will be doing, always the world would be bailing out of trouble Poland because they believe that everybody is interested in having peace in Poland. So they probably were also counting on, during the military crackdown that the West would be coming to the economic rescue of Poland.

It does not matter what has happened to the basic civil rights and human rights and so on in Poland. They were believing this, and now they see that this is not so. Probably this is not 100 percent as it should be, but nevertheless, they are angry, and even Jaruzelski back in Moscow is speaking out. He is angered that the United States, the West, is making his situation difficult.

So let him be even more angry. I would definitely, definitely, not be helping him in overcoming Polish economic difficulties. That is the first thing.

Second, the Polish nation may believe if there is some, let us say, rescue operation without saying to the military junta, what are the preferences of the free countries and especially the United States, then the Polish nation may believe that something is going behind the scenes, that there is some rhetoric publicly used but that is for, let us say, public consumption, but in reality the U.S. Government and other governments of the Western countries are really siding with Jaruzelski.

This would be morally disarming the Polish nation. You should not be doing that. Therefore, I would be strongly advocating making legal all debt that is already technically done. I mean default. And just to trigger the chain reaction that the Western countries, some of them, who were too overly optimistic when it comes to Poland's ability to repay the credits, let them suffer.

#### MARKET ECONOMY PHILOSOPHY

As far as I understand the philosophy of the market economy, and I think I do, the main, I would say, philosophy of that functioning of market economy is a risk. If certain commercial private banks were irresponsible by extending their credits, believing that the U.S.S.R. would be bailing out those countries or somebody else would somehow, let them suffer.

This is the philosophy of the market forces of operation. Now, the same is true about the credits for the others. As Mr. Nowak was saying, you are subsidizing the system which is falling apart. That system is highly economically inefficient. It is an oppressive system. It will never function properly even if you would be pumping more money in it. It would continue to be aggressive and to be oppressive.

For how long you are going to continue that game? Because if you are coming to a rescue, not declaring some of the countries in default, and provoking this chain reaction, you are at the same time obliged to subsidize that system further as the Western Europeans are trying to do with the gas pipeline, believing that Mother Earth would probably be repaying sometime in the future the credits they are now giving.

I do not think they would be seeing that money back because what they would do to the Soviets if the Soviets would say, no, sorry, we will not be repaying anything to you. I do not know what they would do. Besides, they would be providing them with money which would be used for military ends.

So this is something which is certainly to be stopped. You do not have three options. There are only two options: Either you will stop subsidizing debt which absolutely must bring about a death of the system which is totally inefficient; or you will simply subsidize it. For how long? Well, I do not know. For as long as probably the taxpayers and other foolish banks will be ready to subsidize.

#### IMPOSITION OF GRAIN EMBARGO TO U.S.S.R.

I do not know. This is something which you must decide and you must decide quickly to foil the gas pipeline deal. And just let me end my remarks with this. I am strongly voicing imposing the grain embargo on the U.S.S.R.

You are, Mr. Chairman, supposed to increase your defense spending only this year by \$33 billion if this is adopted by the Congress. The grains, the 23 million tons you are supposed to sell to the Soviets, are worth something like \$6 billion. Besides, the Soviets, as far as I know, are looking for credits in the West to buy your grains.

Well, I would reduce that increase in military spending by the equivalent of this grain exports and pay out to the farmers. The net effect of that operation would be far greater than to increase the defense spending and sell grains at the same time.

I do not agree with that argument by some here in the United States that if you do not sell this grain, then the others will sell it. This is the feed grains which you have, and the Soviets mostly need feed grains, and the others do not have the feed grains. That much, at least, the United States does have. You have to complicate the situation for the U.S.S.R., for the would-be socialism in general, if you are going to win. Otherwise, I do not think there is any end of debt more to competition between the free world and the U.S.S.R.

Thank you very much, Mr. Chairman.

Senator KASTEN. Mr. Ambassador, thank you very much.

As you know, the question of the grain embargo and the effectiveness of it has been debated. There are a number of people who feel that all we did essentially was disrupt the supply for a short period of time. And then the supply was filled by Canada, Argentina, and others. There are others who feel as you do, that because of the quality or the type of grain that we have, we can make a serious dent in their economy, and in their efforts for a longer period of time.

Mr. Nagorski has written an article in the Wall Street Journal, in which he says the reasons for the present crisis are rooted in the unjust and unfair conditions of our—"our" being the Polish foreign trade—conditions which would be described as robbing Poland of its hard currency reserves.

Now, basically, what Mr. Nagorski is saying is that a system set up in 1976 was based on an economic unit called a transferrable ruble, which resulted in Poland footing the hard currency bill for large portions of the Soviets' imports of goods and technology.

#### TRANSFERRABLE RUBLE

Is this an accurate description of the trading system between the Soviet Union and Poland, as a result of this so-called transferrable ruble unit?

AMBASSADOR RURARZ. Yes, Mr. Chairman. I am familiar with that article by Mr. Nagorski, and I was already explaining to some of the experts here in the United States, the situation is by far even more complicated than that. I would not be attaching a great importance to certain, I would say, technical problems, which is this transferrability of the ruble, which by the way does not exist in practice.

But may I say this, that this goes far beyond all that. Certainly, Poland was throughout the postwar period encouraged to develop certain industries and to increase certain spendings which have absolutely

nothing to do with the preferences of the Polish people and of the Polish economy.

This is not a recent phenomenon, what Mr. Nagorski is writing. We have been compelled in the postwar period to expand the war industry, for instance, which is absolutely serving no purpose for the Polish economy. This is a great burden upon it. We are maintaining a large army, the third largest in Europe after the Soviet and West German army, which is also serving no purpose except oppressing the Polish people.

#### SOCIALISM OF POLAND'S AGRICULTURAL PRODUCTION

We have also been encouraged to practice socialism in the most orthodox form, which really brought about all this collapse of the Polish economy. Poland has become a net importer of food. Why? Because it was toying with this socialist idea of making the farming state-owned, and the individual farmers were very much discouraged, so that we have this food problem on purely ideological grounds, and besides, very much pressed by the Soviets, I say with some authority, because I was quite close to all of those things.

And there are many, many other things of that kind. Also, of course, the inputs of certain goods exported to the U.S.S.R. are very much burdened with hard currency imports. This is, of course, very well known in trade. Besides, the U.S.S.R. was never too much interested in making exploration, possibilities to produce natural gas and oil, because there are some reserves of that, because they wanted to make Poland dependent on them, and many, many other things.

So this, Mr. Chairman, is far more complicated. Besides, may I say that I presented a paper on that, when it comes to some philosophical, I would say, assessment of how Poland is exploited by being allied with the U.S.S.R. and socialism. You might look into that paper.

#### ECONOMIC RELATIONSHIP OF U.S.S.R. AND SATELLITE NATIONS

Senator KASTEN. You described the economic relationship between Poland and the Soviet Union. In your opinion, does that same economic relationship hold for the other satellite countries, in that their economies are essentially being controlled and managed for the benefit of the Soviet Union, and that the hard currency problem exists in the same way?

Ambassador RURARZ. Exactly. Each so-called 5-year, or in the past it was 6-year, plan before it is even discussed by the Polish authorities is consulted with the Soviet State Planning Commission. And only after receiving their views on that, the draft of the plan is prepared and it goes for further consideration by the Polish authorities.

So that at the original stage of preparing the development of the plan, there is very close consultation with the U.S.S.R., which is, of course, voicing its preferences.

May I say that the State Planning Commission in the U.S.S.R., 80 percent is composed of military, so that the military considerations are certainly dominating here. So that Poland is fitting, I would say, within this war machine by the U.S.S.R., and this is decisive.



## SOVIET REACTION TO POLISH DEFAULT

Senator KASTEN. How do you believe the Soviet Union would react to a declaration of default? Specifically, do you think that it would be forced to use more of its resources to shore up Poland, to help them more economically? Or do you think it would merely allow the Polish people to continue to suffer the consequences?

In other words, by declaring default, do you think the Soviets would move to try to shore up that economic loss that would be produced? Or do you think that they would simply let the Polish people and the government there suffer the consequences?

Ambassador RURARZ. Well, Mr. Chairman, the Polish people are suffering anyway. And I am afraid that it may suffer even more in the future, even if, let us say, the material well-being of the nation would not be deteriorating further.

But morally and spiritually, that nation would suffer for probably a long time. And I am not excluding bloodshed, because the people may be brought to desperation and may quite simply take to the streets and start fighting. Well, I am not excluding that. Besides, the nation has the right to strike back if it is abused in that way that it is.

But coming back, well, I think that the Polish economy is that important to the U.S.S.R. It is very much interlinked with the Soviet war potential that the Soviets will be trying to do everything that is possible, of course, not to make that economy totally collapse.

There are also limits to the suffering of the Polish people. They would certainly be trying to do as much as possible not to make the Polish people starve on a mass scale, because of course, the Polish army and even the security police is composed of Poles, first of all. So they, when certain limits are crossed, they also may be revolting. This is not totally impossible.

## EXTENT OF SOVIET AID TO POLAND

There is another problem: Whether the Soviets can really help. I must say that I am rather very much of the opinion that the Soviets would be unable to help Poland much. As far as I can figure out, their current exchange reserves are very small. I think they are only \$3.7 billion, what is known. What their gold storage is is unknown, but even if the estimates are true, even if it is up to \$10 billion, although the estimates vary between \$2 and \$10 billion, if they were to start selling gold on a mass scale, they would drive down the price of gold.

Senator KASTEN. It is already happening, I think.

Ambassador RURARZ. Yes; they would be asking for some new credits. That is certainly again a problem.

When it comes to their own resources, they cannot provide Poland with food, especially grains. They cannot provide Poland with many spare parts and components because the Polish industry, especially that built in the 1970's, is more than 50 percent based on Western technology and Western capital goods and so on and so forth.

And I think that the Soviets were not planning that kind of help in the past, so that this would certainly displace a lot of Soviet, I would say, economic strategies if they would be obliged to do that. And I do

not believe that other Eastern European countries would be able to help Poland.

I would, nevertheless, suggest and recommend very strongly to make a test of what the Soviets would do if you would do what I think many people advocate here. And I strongly subscribe that somebody must take the lead, and somebody must show the way of how to treat them by, of course, refusing the credits and by making them default. Let us see what will come next.

I do not think really the Soviets are capable of helping Poland as much as they would wish. I am not saying what the Polish people would wish; that is another story. Certainly, they would be unable. But even they themselves, they are unable to do that.

Mr. Chairman, may I say that they are maintaining the oil supplies to Poland only at the expense of cutting those supplies to Czechoslovakia and to some other Eastern European countries, because they are unable to produce more oil.

#### INTERNATIONAL DEFAULT

Senator KASTEN. Mr. Ambassador, I thank you very much for your testimony. And I think it is important that someone take the lead on this issue.

It is my hope that through the work that you are doing, through the legislation I am going to introduce this afternoon, and through additional hearings we will have an impact.

What is an international default? In other words, is it like personal bankruptcy in which you can wipe out your debts, or do those debts remain? In the next week or so we are going to be examining that question.

We have not had an international default before. We have not had a country go into default, but we will examine that question with some international bankers.

In my opinion, the Soviet Union would have no choice but to try to move in. And it would divert resources, whether it would be from Czechoslovakia or other Eastern European countries, as you say, or whether they would be forced to divert resources from the military or they would be forced to further draw down on their gold, their diamonds or their hard currency.

But one way or the other, it seems to me that in all cases the result is one that would overall be of benefit to us. I believe, although there may be some short-term problems, overall it would be of benefit to the people of Poland and to the courage and belief that you at this moment so personally demonstrate.

We thank you for your testimony this morning.

Ambassador RURARZ. I thank you very much, Mr. Chairman. And let me say that I am greatly honored to have been given the chance to testify before you. Thank you very much.

Senator KASTEN. I thank you very much.

The final witness is Mr. Karpinski.

Mr. Karpinski, would you come forward? It is my understanding that you have a prepared statement that you may wish to excerpt parts of,