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The Economic Burden

5. The recovery of the Polish economy is an issue of immediate and pressing significance. Polish industrial production was off 13 percent in 1981, and farmers have been refusing to sell their products in return for worthless slotys. On the foreign front, Poland will have its hands full just trying to muster the resources needed to meet even the interest payments to banks on its massive hard currency debt of \$26 billion.

6. Announced increases in food deliveries from the USSR and the other COMECON states served as a stop-gap measure to tide the regime over the holiday season, but do nothing to deal with the long-term problem of shortages. Furthermore, those food deliveries already made are not necessarily outright gifts, and some may eventually have to be repaid.

7. In the face of severe financial and economic constraints which have already forced the Soviet Union to scale down energy and other valuable raw material exports to the other East European countries, Moscow would prefer to avoid the added burden of a prostrate Polish economy. Yet, to simply allow the Polish economy to run down to the point where privation and desperation would force the Poles back to work would be to risk an explosion which could drastically heighten the military, economic, and political costs of maintaining the Soviet position in Poland.

8. Over the short run, the USSR will choose to bear the additional burden rather than risk a conflagration at its Western border. Although an increase in aid comes at a bad time for the USSR because of its own slowing economy, the levels of assistance that would be required—in terms of goods and ruble credits—are affordable for the USSR's trillion dollar economy. The 6 January announcement that Moscow would provide Warsaw 2.7 billion rubles in new credits to finance Poland's bilateral trade deficit in 1981 and 1982 suggests that the USSR does not expect Polish aid to skyrocket this year. In fact the numbers imply that a slight reduction in the Polish trade deficit with the USSR is in the works. The level of Soviet aid to Poland could quickly increase, however. Moscow might also find itself having to step up deliveries of food and of raw and intermediate materials needed to keep Polish factories operating.

9. From a hard currency standpoint, Soviet aid could present more of a problem to Moscow. To save credit

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worthiness, the USSR might decide it has no choice but to help Poland meet its debt service obligations. If, for example, Warsaw's creditors are willing to continue rolling over principal as long as interest payments are met--as seems likely--the cost to the USSR might be as much as \$4 billion in 1982. In contrast, the USSR provided Poland with only about \$1 billion in hard currency assistance in 1981. If Moscow decided to limit itself to paying interest on unguaranteed loans only, the cost would still be about \$3 billion.

10. The USSR could ease the cost of aid to Poland by asking the rest of Eastern Europe to shoulder some of the burden. The Warsaw Pact countries provided little direct aid to Poland last year, and their own economic problems make it difficult for them to provide much help. If the East Europeans balked at calls for a direct increase in aid, in the short-run Moscow could effect a transfer indirectly by boosting shipments to Poland at the expense of deliveries to the rest of CEMA. Although this could cause problems in the countries affected, the Soviets are likely to be more concerned with their immediate problem in Poland.

#### Long-term Problems

11. The Soviets are clearly aware that the only long-term solution to the Polish economic problem is a revival of productivity, but they have given no sign that they have any clear idea how it can be achieved. The tentative policy directions which have emerged so far are more suggestive of wishful thinking than of calculated planning. Soviet spokesmen have suggested from time to time--presumably with Polish worker morale in mind--that they see a role for the "moderate" leaders of Solidarity--including Lech Walesa--and for the church in Poland. Their press continues to conspicuously omit Walesa's name from the list of "extremists." Moreover, Moscow's recitation of Jaruzelski's moderate pronouncements that there is room for Solidarity and that he will not turn back the clock to the situation that existed prior to the 1980 Gdansk agreements suggests some Soviet interest in preserving at least a semblance of reform.

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