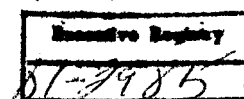


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THE DIRECTOR OF CENTRAL INTELLIGENCE

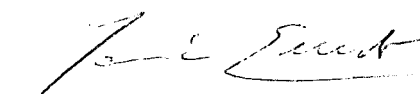
WASHINGTON, D.C. 20505

NFAC #7931-81
4 December 1981

National Intelligence Council

MEMORANDUM FOR: Director of Central Intelligence
VIA: Chairman, National Intelligence Council
FROM: Maurice Ernst
National Intelligence Officer for Economics
SUBJECT: Key Issues in Western Aid to Poland

The attached is for your use in preparing for the NSC discussions on Poland and for distribution to the NSC or other levels if you so desire. I have tried to tackle as directly as possible some of the key questions that are constantly being asked on the Polish aid issue. The paper has been discussed with Bob Gates, [redacted] and 25X1 the principal Polish experts in NFAC. It is consistent, I believe, with NFAC's findings. I am a bit more optimistic than Bob Gates but not by much. In any event, we appear to agree that a good case for larger aid to Poland can now be made, while before it could not.


Maurice C. Ernst

Attachment,
As Stated

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Key Issues in Western Aid to PolandConclusions

1. Large scale Western aid to Poland is still a long shot, but its potential pay off and the process which might bring it about are beginning to come into focus.

2. What the US, and the West, can hope for in Poland is:

- An internal political evolution which allows much broader popular participation in policy formation and implementation.
- A foreign policy somewhat less subservient to Moscow.
- A less malleable Warsaw Pact.
- A spreading of pluralistic tendencies into other Eastern European countries, leading to a loosening of Soviet control over the area.
- Some eventual encouragement of similar trends in the USSR.

3. The power struggle between the Polish government and Solidarity has reached a point where both sides must try to find some grounds for cooperation. This is because the exclusive reliance on confrontation and subsequent compromise to define political power over the past two years has brought an economic slide so severe that both sides are now afraid of losing control. Consequently a difficult process of seeking methods of consultation and of institutionalizing the role of workers' groups has begun. At best the process will continue for a long time, perhaps years, and be marked by recurring crises. At worst it could yet fail because of splits within both the Party and Solidarity, and misjudgments as to the limits of Soviet tolerance. But there is a reasonable chance that Poland will evolve along lines favorable to Western interests.

4. Western aid could help stabilize the economy during the period when a new political balance is being developed and, after this, to support economic expansion. Substantial amounts of any large new aid may be directed, however, to pay interest on past unguaranteed bank loans.

5. Moscow may be willing to tolerate considerable political change in Poland so long as it does not directly threaten its vital security interests in central Europe, the acceptance of Communism as an official ideology in Poland and the primacy of the Communist Party, or major Soviet foreign policies. The limits of the toleration are ill defined and often ambiguous, but Moscow clearly considers the costs of military intervention to be high. It is unlikely that Moscow will use its enormous economic

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leverage against Poland on a large scale unless Poland's political evolution gets at least close to the point of justifying military intervention. On the other hand, Moscow would not want to help a radical reformist Polish government to succeed. Given their radically different long term objectives, the Soviets cannot be expected to formally cooperate with the West to stabilize the Polish economy. What use Moscow would make of carrots and sticks in reacting to Western aid would depend on the circumstances.

The Issue

6. This memorandum addresses the rationale for a large-scale infusion of new aid into Poland. It is not concerned with rescheduling of existing debt obligations. Rescheduling can be justified on economic grounds alone, since Poland is unable to meet its obligations in any event. Also not considered is small-scale ad hoc emergency food aid which can be defended on humanitarian grounds and to show continued Western interest in the Polish workers' movement. In addition to rescheduling and small-scale food aid, however, Poland clearly needs several billion dollars in new aid if it is to get its economy moving again. Although economic recovery in time will facilitate repayment of debt, this prospect is a long way off. For the US the main purpose of such aid is to help influence evolution of the Polish political system and policies in a direction that is favorable to our national interests.

The Key Questions

7. In order to be in a position to decide on whether and how much new aid to give Poland, four basic questions need to be answered. These are:

- What favorable developments in the Polish political scene can we hope for?
- What process could bring these developments about, has this process begun and, if so, how far along is it?
- Could Western aid help this process and how?
- Is Moscow likely to neutralize the impact of Western aid and under what conditions?

Potential Political Evolution in Poland

8. Our best hope is that Poland will develop, within the general framework of an officially Communistic system and membership in the Warsaw Pact, a more representative domestic political process, checks and balances on the exercising of central power, and a degree of independence in foreign policy. Although the limits of Soviet tolerance are not well defined, it is obvious that Moscow would not allow Poland to:

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- become an unreliable bridge for Soviet military movements to and from East Germany and other Warsaw Pact countries;
- abandon Communism as an official philosophy or the primacy of the Communist Party as a political institution;
- oppose Soviet foreign policy positions, or support Western positions, on many important issues.

9. Within these rather broad limits, however, there may be considerable room for change. At least the dominant political forces in Moscow evidently view the cost of invading and pacifying Poland as being very high. Although the Soviets no doubt hope that the erosion of party control in Poland can be halted and reversed eventually, as time goes on it will become more and more difficult for Moscow to justify military action for any reason other than a disintegration of public order in Poland or a clear-cut challenge to the principles mentioned above.

10. Given these inhibitions on Soviet actions, we might reasonably hope for the following outcome in Poland's political evolution.

11. On the domestic scene, development of a process of political consultation between the Communist Party and various interest groups, such as labor and farmers. At the plant level, a balance of power between managers and workers' councils. Also, a mixed economy with much broader market elements, but still large-scale central planning.

12. Changes such as these would entail a far more pluralistic political system and far more constraints than in the past on government policy formulation and implementation in the economic, social and cultural areas.

13. In foreign policy, greater emphasis on Polish national interests, in response to the strong current of nationalist revival inherent in the political reforms. Although Poland obviously could not afford to actively oppose major Soviet initiatives, it could become a difficult partner for Moscow on such issues as disarmament and arms control, East-West economic relations, and relations with Third World areas.

14. In the military area, Poland no doubt would remain in the Warsaw Pact, but Moscow would have greater difficulty dictating military policy to the Poles.

15. The USSR and the other Soviet Bloc countries would try, but would probably fail to quarantine the kind of Poland that we have just described. The successful demonstration by Poland of an officially Communistic system that permitted serious popular involvement in the political process and in economic decisions could be a powerful attraction

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in other Bloc countries. The degree of attractiveness, however, would depend on how successfully Poland was able to tackle its economic problems. With reasonable success, eventually the Polish disease would spread, in one form or another, perhaps even to the USSR itself.

16. The implications of such developments for US interests are vast. They include:

- the further weakening of the Warsaw Pact military threat in Europe;
- increased constraints on Soviet foreign policy;
- an erosion of Moscow's hold over Eastern Europe;
- and, most important, planting the seeds for changes in the Soviet system and policies in a direction of reduced antagonism with the West.

17. These trends in the Soviet Bloc would have an impact on the Western alliance as well. Many Western Europeans would view Soviet tolerance of a more pluralistic political system in Eastern Europe as a vindication of detente and a strong further reason for arms limitations. This situation would involve opportunities as well as risks for the United States, depending on our reactions.

The Polish Political Process

18. Beginning from irreconcilable positions, the Polish government and the workers' movement have taken some first steps to begin major reforms of the political and economic system. At the political level, the government has been forced to consult on basic policy questions with Solidarity and the Church. At the institutional level, new laws are being passed that will legitimize the new powers of workers' councils.

19. Ever since the first strikes in 1980 which led to the formation of Solidarity, the process of political evolution in Poland has been one of crisis and compromise. The crises usually took the form of unacceptable government actions, followed by strikes, followed by a resolution through ad hoc consultations. All of this took place outside the legal institutional structure. Coming on top of Poland's deep-seated economic problem, it has caused an economic tailspin. Until recently, the threat of disrupting the economy was an important weapon for the workers' movement, and a useful bargaining tool for Solidarity. Although Solidarity still needs the strike weapon, it now sees a further worsening of the economic situation as potentially detrimental to its interests. Accordingly a large element in Solidarity now appears to be willing to try to develop a more stable, less confrontational, process for dealing with the government.

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20. If a more cooperative process of compromise between the government and Solidarity is to be developed, however, the government must be willing to go along. There is obviously a split in the Polish party on this issue, and the outcome is in doubt. The chances are that the outcome will be ambiguous, with occasional confrontations, but also with more serious attempts to cooperate.

21. Although the outcome remains highly uncertain, there is a reasonable chance that the almost continuous political confrontations which have caused the economic slide will become less frequent. That alone would permit some economic recovery if sufficient foreign exchange were available to finance essential imports. A major economic recovery, however, will depend also on renewed popular confidence in the government, and that will take a long time at best.

Could Western Aid Help?

22. Yes, Western aid could help Poland develop along lines favorable to US interests by supporting the process of political rebuilding. So long as Solidarity could freely use forms of political action that caused major economic disruptions in its struggle for gaining a lasting political role, it was not at all clear that large scale Western aid would promote a favorable political evolution in the long term. But now that a further worsening of the economic situation has become as much of a threat to the workers' movement as to the government, and both sides consequently have a strong interest in stabilization, Western aid can be helpful in achieving this result. At a minimum, Western aid can help avert an economic collapse while serious negotiations between the two sides proceed and new institutions are formed. Beyond this, substantial new aid would be needed to finance the imports of materials and spare parts that factories need if they are to begin expanding production. Exports will increase as well, but, initially at least, import needs will grow more. This will mean several billion dollars a year in new aid for at least two or three years.

23. In providing new aid, Western governments must realize that substantial funds are likely to be used to pay interest on unguaranteed obligations to banks. Although the banks have reluctantly allowed payments on these obligations to slip, they did so because Poland had no money, and consequently there was no other choice. With any government decision to provide large scale aid, the banks would try to lay claim to the Polish foreign exchange earnings that were freed up by the aid.

Soviet Reactions

24. The USSR has ample economic leverage over Poland with which to offset or neutralize any amount of Western aid. Indeed Moscow could cause much of the Polish economy to collapse, if it chose to do so. Several considerations limit Moscow's freedom to use economic pressure against Poland.

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- Large-scale economic sanctions are likely to be so destabilizing as to lead to military intervention.

- More modest economic sanctions may be useful as signals of Moscow's discontent but, if taken too far, can stimulate reactions in Poland which bring about a major crisis and, once again, to the question of military intervention.

- Reductions in Soviet economic aid or a hardening of economic terms could push Poland toward even greater reliance on the West.

25. This does not mean, however, that Moscow would help a radical reformist Polish government to succeed. Although the Soviets, like the West, would like the Polish economy to stabilize, their long term interests in the political evolution of Poland are irreconcilable with those of the West. They would, therefore, reject any lasting arrangement to share the burden of aid to Poland. Moreover, if Moscow believed that Western aid was becoming an important force pushing Polish political reform, it might reduce or withdraw its aid to Poland.

26. The upshot is that Soviet reactions to large-scale Western aid to Poland are not predictable. Their use of economic pressure and influence is likely to be subtle--carrots or sticks depending on the circumstances. But the USSR is unlikely to engage in large-scale economic warfare unless it had become prepared also to use military force.

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