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LONDON SW1A 2AA

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From the Private Secretary

26 July 1990

Thank you for your faxed memoranda of 3 and 11 July about Western aid to the Soviet Union.

As you will certainly have heard, the Dublin European Council and Houston Economic Summit commissioned studies on how the Soviet Union might benefit from Western assistance. We shall await the outcome of these before considering any large-scale commitments designed to help the Soviet Union in converting to a market economy. But we are continuing our smaller-scale help in areas such as management training and very much welcome your own efforts in this field, in particular the jointly funded scholarships at Oxford and elsewhere.

CHARLES POWELL

Mr George Soros



Foreign and Commonwealth Office

London SW1A 2AH

23 July 1990

Dear Charles,

Aid to the Soviet Union

Thank you for your letter of 12 July enclosing a second memo from George Soros, dated 11 July. We had not previously seen Soros' pre-Houston memo of 3 July.

Mr Soros' views on aid to the Soviet Union and how it might be deployed are seen here as something of a curate's egg. It would not be very useful to enter into a detailed correspondence when the studies commissioned at Dublin and Houston are just getting under way. We recommend a brief reply. I enclose a draft.

Copies of this letter go to John Gieve (Treasury) and Eamonn Taylor (ODA).

Yours ever,

Richard So

(R H T Gozney)
Private Secretary

C D Powell Esq
10 Downing Street

Draft Reply from Private Secretary

To: George Soros Esq
888 Seventh Avenue
Suite 3301
NY, NY 10106
USA

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FILE

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cc HMT
ODA



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

12 July 1990

Aid to the Soviet Union

BM I enclose a further memo about aid to the Soviet Union from the indefatigable George Soros. I should be grateful for advice and a draft reply.

I am copying this letter and enclosure to John Gieve (HM Treasury) and to Eamonn Taylor (ODA).

C. D. POWELL

Richard Gozney, Esq.,
Foreign and Commonwealth Office.

JS



10 DOWNING STREET

Chere *Spoken to him*
John

George Soros called a Peter
Middleton today. Discussion
was mainly on Soviet Union
and whether it could benefit from
Western aid. George Soros
expressed hope that he might
be able to see PM to brief him
on his recent visit to USSR. Peter
told him to make contact with
you.

AT

5/7

THE SOROS FOUNDATION—SOVIET UNION

AID TO THE SOVIET UNION

1. The Soviet Union is in a process of disintegration heading towards a revolutionary climax. If events are allowed to take their course, they are likely to resemble the French Revolution: innovative fervor, yielding to chaos and terror, to be followed by a military regime based on the pursuit of national glory. The analogy should not be pushed too far: instead of the guillotine, there will be pogroms and civil war, and the military regime that follows cannot pose a threat to the world similar to Napoleon; on the other hand, it will dispose over nuclear weapons.

2. It is in the interest of the world to prevent a decline into chaos. Contrary to the rules of behavior which apply in normal times, far-reaching intervention in the internal affairs of the Soviet Union is called for: only foreign assistance could alter the seemingly inexorable course of events. Again, contrary to expectations, the Soviet Union would welcome it warmly, provided it is well conceived and presented in the right way.

3. The controversy between conditional or unconditional aid is easily resolved. Intervention must be conditional to be effective and the Soviet leadership knows this; but the offer of unconditional and immediate aid may be a useful part of the package.

4. The only way in which the intervention can be made both effective and acceptable is by focusing it on the creation of a monetary system that would allow the transformation of the Soviet Union into a confederation of sovereign republics and, in the case of the Baltic countries, independent states. The transformation itself is an internal affair in which it would be inappropriate to interfere; but having a monetary system that would keep the economy integrated or, more exactly, provide a way for reconstituting a disintegrating economy would make the difference between success and failure. The Soviet leadership recognizes that it cannot establish such a monetary system without assistance. What it needs is not just credit but the credibility that Western involvement would bring.

If the G7 indicated its willingness to help in establishing a monetary system for a reconstituted Soviet Union, its offer would be enthusiastically received and the seemingly inexorable decline into chaos could be reversed.

George Soros
July 3, 1990

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George Soros
July 3, 1990

THE SOROS FOUNDATION—SOVIET UNION

AID TO THE SOVIET UNION

(Follow-up to my previous memo)

Discussion of Western assistance should be broken down into two broad categories:

- (a) assistance in creating a monetary system
- (b) other forms of assistance.

The first category can again be broken down into four levels in ascending order of importance, complexity and cost.

- I. Assistance in managing the foreign currency assets and obligations of the Soviet Union. This would involve the introduction of an effective exchange control mechanism in place of the current chaos. It would probably require the division of the Vnesheconombank into a state institution for exchange control and a commercial banking operation.
- II. Assistance in providing a minimum standard of living for the population. This would involve providing individual rations at subsidized prices, to be financed by the sale of other imported consumer goods at market prices.
- III. Assistance in establishing a payment mechanism between autonomous republics. This would be an extension of the European Payments Union concept to the Soviet Union.
- IV. The establishment of an independent, internationally-managed central bank which would establish a hard currency that would eventually replace the ruble.

Other forms of assistance are too numerous to be listed. I am moving ahead full speed with organizing a system for management training abroad, as agreed between my Cultural Initiative Foundation and the Reforma Foundation in Moscow.

George Soros
July 11, 1990

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