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NATIONAL SECURITY COUNCIL MEETING

Date, Time Tuesday, September 15, 1981; 4:00 - 4:45 p.m.;
and Place: The Cabinet Room

Subject: Further Economic Aid to Poland

Participants:

The President

State:

Dep Sec William P. Clark
Mr. Earnest Johnston

OMB

Dep Dir Edwin L. Harper
Mr. William Schneider, Jr.

OSD:

Secretary Caspar W. Weinberger
Dep Sec Frank C. Carlucci

Treasury:

Secretary Donald T. Regan

CIA:

Dir William J. Casey

JCS:

General David C. Jones
Lt Gen Paul F. Gorman

White House:

Edwin Meese, III
James A. Baker, III
Mr. Richard V. Allen
Admiral James W. Nance
Ms. Janet Colson

NSC:

Dr. Norman Bailey
Mr. Rutherford Poats
Cdr Dennis C. Blair

MINUTES

The discussion began at 4:05 p.m.

Mr. Allen suggested that the meeting be divided into 30-minute segments, each devoted to one of the two topics on the agenda -- Further Economic Aid to Poland, and East-West Policy.

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Turning first to Poland, he referred to a joint memorandum of September 1 from Secretaries Haig and Regan, a CIA assessment, an NSC options paper and other documents. He proposed separate consideration of emergency aid and long-term support of Polish economic reform and recovery. The case for emergency aid is clear, he said; the issue is appropriate burden-sharing among the Western allies. The case for longer-term aid is based on an acknowledged long-shot: that a government of revisionist communists leading a bureaucracy accustomed to operating socialist controls will adopt and carry out market-oriented reforms; that the unions will go along with austerity required by economic stabilization; that Moscow will tolerate further Westernization of Poland and continue to provide a critical \$2 billion in annual credits and subsidies. At this time we have no grounds for adopting these assumptions, and the cost of our share of Western aid in support of a Polish economic reform program would be great. However, the political and security opportunity presented by the current movement toward greater freedom in Poland requires the United States and the Western allies to give a great deal of consideration to such an aid effort.

Deputy Secretary Clark explained that Secretary Haig had planned to attend this meeting but was unexpectedly required to leave for New York this afternoon. He said he was reading from notes provided by Haig, who places great weight on the strategic aspects of events in Poland. The liberalization process in Poland is the first successful break in the Soviet model of Eastern European communism, he said. The potential ripple effect throughout Eastern Europe is of major strategic importance. The benefits of establishing a more independent and freer Poland can't be quantified as well as the budgetary costs of Western assistance to this process. We can, however, measure some negative effects of a Polish default on its \$27 billion debt to the West, which might have a domino effect on Western credits all over Eastern Europe, with severe consequences for the international monetary system. The failure of Poland's challenge to Moscow for lack of Western assistance would be the modern equivalent of Yalta, a historic act of indifference.

Our strategic interests, Secretary Clark continued, require that the West provide short-term relief of Poland's economic crisis while the political liberalization process proceeds. For the United States, food aid is the appropriate response. We can provide \$50 million in food aid at this time, using PL480 funds.

As to longer-term aid for Polish economic reform, it would be premature to propose such a program today, particularly in view of our budget problems. We should prepare a budget options paper. It would be impossible to fund a major long-term aid program for

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Poland out of our International Affairs budget, the bulk of which is earmarked for such countries as Israel and Egypt. Using the DOD budget, even if Defense acquiesced

Secretary Weinberger: We don't.

Secretary Clark (continuing) would send the wrong signals to our allies, whom we don't want to make the same trade-off, and to the Soviets. A supplemental budget request is not possible now. It is true that Western Europe should do more, but they won't if the United States won't. They face the same budget restrictions we face.

He added, however, that it is important that we show our interest and support the historic process at work in Poland. The Government of Poland has in mind a broad program of economic reforms to be put into effect by January 1982. The conditions we attach to Western aid should indicate general directions of reform we wish to support. Europe's role would be primarily to help with industrial goods as well as rescheduling of Poland's debts, which are largely to Western Europe. They look to us mainly for agricultural products.

He proposed that the President make a decision today on short-term aid and allow a little more time on longer-term aid. The longer-term outlook is cloudy, he indicated, referring to reports indicating a heightened possibility that the Government may declare martial law.

The President asked whether further aid to Poland would require a supplemental budget request to Congress.

Secretary Regan responded that reallocations among programs within the present FY 1982 budget would be required. He suggested that the only step the United States should consider now is providing some food aid, involving a relatively small budget reallocation. As to general economic support, he said, the Poles are not doing enough to help themselves. They recently indicated that they are not going to join the IMF in the near future. This may reflect Soviet pressure on them. They are not doing enough to increase coal production.

The President noted a report that about 10,000 Polish soldiers are to be sent into the mines to increase coal production.

The President then raised two basic concerns: whether the economic problems of a communist country can be effectively cured by Western aid, and whether our aid would only strengthen a communist government's control and repression of domestic movements for greater freedom. Food aid to the people, he said, might be another matter.

He mentioned that a financial specialist had broached the idea of selling some surplus US agricultural commodities to Poland at concessional prices and letting the Poles resell them in Europe at commercial prices, retaining foreign exchange needed to pay their debts.

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He concluded that providing food directly to the people, with credit going to the United States rather than to the Government of Poland, is what we should do.

Mr. Allen said our interest in the people of Poland has more than one dimension. Another consideration is their political freedom. The Polish people and the West would "lose" if Solidarity were crushed and the Soviets could boast to all of Eastern Europe that liberalization had failed. One argument that can be made, he said, is that Western aid aimed at influencing the Polish Government to continue the present liberalization movement will help the people of Poland. The very existence of such a government in the eastern bloc is a setback for the Soviet Union.

Secretary Weinberger said the critical argument against launching a program of long-term economic aid to Poland now is that the Polish Government lately seems to feel that it is necessary to crack down on Solidarity and follow Soviet orders. We should do what we can to encourage Solidarity to resist such Soviet pressures. Beyond immediate food aid, there is not much we can do, except provide for transportation of food. Perhaps the International Red Cross could help to get food directly to the people. If we support the government now, we may find that we have assisted the government to resist making concessions to Solidarity.

Mr. Casey said he generally shared the views just expressed. He summarized a survey of the US intelligence community's views, which favored financial aid to Poland if there could be assurance that it would not go down the drain. But he said no such assurance can be given. A Polish economic recovery and reform program looks today like a long-shot. The Soviets could sabotage a recovery program, taking away Soviet aid while we increase Western aid.

He added that Western relief-type aid expressing goodwill toward the people of Poland would also serve to show the world the failure of the communist system. This led him to favor direct food aid, possibly through the Catholic Church.

Mr. Allen said US food aid should be given with some fanfare and with public recognition of the source, the US people.

Secretary Clark said that was State's proposal -- not a check but shipments of food, financed by the existing PL480 budget for FY 1982. About \$50 million worth of food could be provided by drawing on the unallocated reserve between October 1 and the end of this calendar year.

Mr. Harper described the Polish economy as a "basket case" and said no amount of Western aid could overcome the folly of Poland's state planning and bureaucratic management of economic enterprises. Without fundamental changes, nothing useful could be done for Poland by the United States other than providing food and medical assistance to the people.

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Secretary Clark asked whether OMB was concurring in his proposal, provided funds are available.

Mr. Harper said yes, if funds are available. Subsequent discussion clarified that the legislative process for FY 1982 has not been completed, but Congressional sentiment strongly favors PL480 appropriations.

Mr. Allen said we would need to consider whether there are obstacles to channeling substantial amounts of food aid through the Catholic Church and other non-governmental intermediaries.

Mr. Meese asked whether the proposal is simply to alter our priorities for the use of PL480 funds already in the budget.

Mr. Harper confirmed this understanding.

Secretary Carlucci said it may be very hard to distribute as much as \$50 million worth of food through voluntary agencies.

The President said he questioned whether there was any benefit to the United States in our bailing out the Government of Poland -- a government which may be as hostile to us as the Soviets. He said he often had wondered what would have been the outcome if we had not bailed out the Soviets.

Mr. Allen said there was the option of waiting until the Soviets invade.

The President asked whether anyone believes that if the Soviets invade they would not meet resistance?

Director Casey replied that the Poles surely would resist.

Mr. Allen said the immediate problem was to work out arrangements for Catholic Relief Service and other distribution channels so as to assure that the credit for our food aid would redound to the United States.

Secretary Clark said that requirement was dealt with constantly in managing AID programs.

Mr. Allen said we should make a propaganda contrast between our bountiful food production and food aid and the current Soviet grain crop failure.

Mr. Meese summarized the decision: \$50 million from the FY 1982 PL480 budget to provide food aid, preferably through Catholic Relief and other non-governmental channels. The second-best alternative is to provide this food through the Polish Government. But in any case, our aid would be accompanied by a propaganda campaign.

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Secretary Carlucci noted that PL480 Title I provides a credit to the foreign government, which imports the food and sells it for cash, thus augmenting its budget.

Mr. Johnston noted that Title I requires loans to a government, whereas all the discussion has been about grants through non-governmental channels.

Mr. Poats explained that the President could transfer funds from Title I into the Title II account, which can be used to finance grants either to governments or through non-governmental channels.

Mr. Allen said we would check with Cardinal Krol and our Embassy in Warsaw on the best means of proceeding. We will try the Title II grant approach and if this is not possible, we will bring the matter back to the President.

The President agreed and cautioned against any plan that might be criticized as dumping grain on the market below market prices.

The discussion of this topic ended at 4:47 p.m.

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