

# USAID

## Highlights

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## Agency Promotes Freedom in Eastern Europe

**T**he world changed profoundly last year. Throwing off the suffocating shroud of the Iron Curtain, the Polish people elected their first non-Communist government in 40 years, jubilant Germans from East and West breached the Berlin Wall, and Romanians deposed a brutal dictator. Hungary authorized independent political parties, and Czechoslovakia installed a dissident writer as president.

In July, President Bush visited Poland and Hungary to confirm American support for the growing wave of reform. Speaking before the Polish parliament, Bush said, "For decades...the United States has stood for Polish independence, freedom, prosperity. And we are proud of our early and longstanding commitment to Polish self-determination. As America's president, I am here today to reaffirm that proud commitment.

"...And now, in part because of what you are doing here, the genuine opportunity exists for all of us to build a Europe which many thought was destroyed forever in the 1940s.

That Europe—the Europe of our children—will be open, whole and free."

But, as the countries of Eastern Europe struggle toward freedom, they face daunting economic problems that stand as obstacles to change. Decades of central planning have created crippled economies that are unable to supply even the most basic goods. The U.S. Agency for International Development (USAID) is part of a major U.S. and international effort to help Eastern Europe achieve stability and enter the global economy.



*Addressing the Polish parliament, President Bush reaffirms U.S. support for democracy in Eastern Europe.*

Last fall, Congress passed the Support for Eastern European Democracy (SEED) Act, authorizing \$822 million of U.S. assistance over three years for programs in Poland and Hungary. Cooperating with other U.S. government agencies, USAID administers the aid package. Design of the new program is now well under way.

Under the SEED Act, Agency-managed assistance to Poland and Hungary is to include:

- supporting private sector development through market-rate loans to local private entrepreneurs from the Polish-American Enterprise Fund and the Hungarian-American Enterprise Fund;
  - promoting agriculture activities in Poland;
  - supporting democratic institutions and democratic initiatives such as pre- and post-election support in both countries, including Solidarity in Poland;
  - providing technical training for the private sector;
  - offering private and public sector scholarships for study in the United States; and,
  - providing medical supplies and equipment to Poland.
- USAID cooperative projects with the U.S. Export-Import Bank, the U.S. Information Agency, the Environmental Protection Agency, the Department of Energy, the Department of Labor and the Department of the Treasury will promote trade, provide educational and cultural exchanges, address environmental problems, encourage labor reforms and foster economic stabilization.
- In December, USAID and the Department of the Treasury announced a \$200 million contribution to the Poland Stabilization Fund, the first activity financed under the SEED Act. The U.S.

monies form part of a \$1 billion, multidonor package. The fund is designed to support convertibility of the currency of Poland (*zloty*) for international transactions.

"With aid to Poland and Hungary, we're completing the circle," says John Blackton, deputy assistant administrator for the Bureau for Asia, Near East and Europe (ANE). "U.S. foreign assistance essentially began in Europe at the end of World War II with the Marshall Plan, a program of support for countries that knew where they were going—what kind of economy they wanted—and that needed short-term financial and technical assistance to get back on their feet and get free-market, democratic societies on the road. Every one of the Marshall Plan countries did, in fact, become self-sustaining, establish a market economy and maintain democratic institutions.

"Now, we're back in Europe, and we have a chance to mount programs that all Americans can take real pride in and feel part of. These are serious countries that desperately want to use limited amounts of foreign assistance to get themselves going. What they really want to do is be prosperous democracies, and they know you don't do that by staying on the dole very long.

"The Poles, for example, have proposed one of the most far-reaching, radical economic reform programs that USAID has ever encountered, one that could move Poland into the free enterprise system less than 12 months after the transfer of power from the Communists to Solidarity," Blackton says.

The new Solidarity-led government of Premier Tadeusz Mazowiecki has inherited an economy in crisis. In addition to the immediate problems of a depressed standard of living, consumer

goods shortages and inflation topping 700%, economic performance suffers from industrial obsolescence, weak infrastructure, bad management and low labor productivity. The stifling system under which Poles have toiled for decades has left goods unacceptable for export, limiting, in turn, Poland's ability to modernize through imports and to service its crushing \$39 billion debt.

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In response to the crisis, Poland has devised a plan to restructure state enterprises, decontrol most prices and interest rates and reduce subsidies. The period of adjustment is proving painful—the price of coal has increased tenfold since the beginning of the year. The cost of bread has almost doubled, and meats and chicken have increased up to 50%. An infusion of capital is needed to help the Polish people weather the storm as the system adapts to the new realities.

Hungary also is facing the daunting task of restructuring its economy. Economic problems

beginning in the late 1970s have caused Hungarians to struggle with sluggish growth, stagnant living standards, an increasingly outdated industrial base and a rising foreign debt burden. The economy's adjustment to changes in world markets and to growing international competition has been slowed by policy errors, poor use of foreign loans and inconsistent economic reforms.

To address the shortcomings of previous reform efforts and lay the basis for improved economic performance, the Hungarian government has been trying since late 1986 to increase the role of market forces in the economy. Over the past three years, it has legislated a broad range of measures to free the economy from central government control, develop capital markets and stimulate more efficient use of resources. The government also has been moving gradually toward market-based wages and prices.

### **Instituting Economic Reform**

"The biggest constraints to development in Poland and Hungary are the absence of everyday free-market institutions," Blackton says. "Forty-some years of Communist government have left Poland and Hungary without things that Americans take for granted as part of an economy. Everything in Poland and most things in Hungary are tied up in huge government corporations which are clumsy and slow and not well-connected to the fabric of the everyday economy.

"Poles, for example, buy almost all their food in huge government cooperative stores. The farmer can't get his pork or his apples to the market in Warsaw and can't sell them to an ordinary person because there aren't Mom-and-Pop grocery stores, fruit stands or whatnot that Americans just expect.

"People can't move their products around. When a farmer's



*Food lines could become a thing of the past in Eastern Europe as removal of price controls encourages farmers to produce more to meet demand at fair market prices.*

crop is ready for market, he depends on a state trucking company, which may have all of its trucks off in the Soviet Union hauling barrels of oil the entire month that his apples are ready to go to market. By the time the trucks show up, his apples are starting to spoil and are worth only half what they were when he harvested them."

The goals of the U.S. assistance program are to ensure that the framework of a market economy—the institutions needed for free enterprise, private initiative, private investment—are in place and to support the growth of open, democratic institutions in which every voice can be heard at the local, the city, the regional and the national level.

"We're not going into Eastern Europe as the financier of the roads, the bridges, the railroads and the ports," Acting USAID Administrator Mark L. Edelman says. "What we want to do is make these economies strong enough institutionally that they can finance that kind of basic infrastructure themselves."

Not only will strengthening Eastern Europe help maintain world peace and stability, Edelman says, but it also will provide new trading partners for the United States and more jobs for Americans.

In Poland, agriculture seems to hold the most promise for economic development in the near term. Unlike most of the rest of Eastern Europe, farms were left in private hands. Farms are small and somewhat old-fashioned, but they are run by individual Polish families who own their land and make their own decisions.

The country has the potential to produce enough food to feed itself and to export some commodities, so food aid is not an urgent requirement. Polish farmers do need high protein ingredients for animal feed, which they do not have the capacity to produce themselves. Also lacking are the institutions of a modern agricultural sector above the farm level—fertilizer and feed distribution, marketing, transportation. These must also move into private hands.

In Hungary, high technology and light-to-medium industry rather than agriculture will probably lead economic growth.

"The Hungarians are poised to become exporters of technological goods into Western Europe," Blackton says. "They have the skills. They are attracting Western capital. General Electric just made a \$150 million investment in a quite sophisticated electronics corporation. Other American investors are looking at computer concerns, communications software, transportation equipment."

Western investments in these countries will provide desperately needed capital for modernization and expansion



*Most Polish farms are privately owned, and the agricultural sector in Poland holds the greatest promise for spurring economic growth.*

of industry. In addition to helping build a freer and more economically sound future for Eastern Europe, U.S. investment in these economies will benefit American business. Hungary's liberal foreign investment law has already roused the interest of Western European and Japanese—as well as American—business men and women. Most Eastern European companies are less expensive to buy than Western European concerns and provide a potential foothold in the European market.

The money legislated through the SEED Act will flow into private entities in both Poland and Hungary. The largest share of money for each country will be placed in funds established to promote free enterprise—the Polish-American Enterprise Fund and the Hungarian-American Enterprise Fund. These will be private, non-profit organizations that lend, not grant, money to promising private sector ventures in Poland and Hungary. The borrowers will probably be mostly small-scale industrialists and may be in

partnership with Americans. The goal of these two funds is to increase rapidly the number and financial capacity of the private entrepreneurial sector of the two countries.

"The legislation is very specific in terms of what we're to do," says Margaret Bonner, coordinator of the Agency's Poland-Hungary task force. "We're trying to focus all the areas where we do have some flexibility—the scholarships, the technical training—toward assistance to the private sector. That doesn't necessarily mean that the recipients of all the training have to be in the private sector. They can be public sector, but their training would be of the type that would reduce impediments to the growth of the private sector—for example, helping the Ministry of Finance to develop employee stock ownership plans."

### Sparking the Entrepreneurial Spirit

Building viable economies by strengthening the private sector is a cornerstone of USAID programs throughout the world and is central to its Eastern European strategy, according to Edelman. A vital entrepreneurial spark exists in Poland and Hungary that needs only sufficient resources to fan it into flame.

"The Poles are a very inventive people," says Joan Silver, chief of the Middle East and Europe division of ANE's Office of Project Development, who visited Poland in December. "We met a number of farmers who, since the liberalization of enterprise, have gotten into small industries—growing vegetables under glass, raising geese for goose liver or drying flowers in the barn rafters—all sorts of income-supplementing endeavors.

"Spare parts or raw materials for repairing or producing equipment often are not available, but they find a way to make machines work by 'cannibalizing' other machines or welding their own parts or adapting with different materials. In the United

States, for example, we make egg incubators out of plastic. In Poland, we saw a firm that makes them out of metal. They were able to explain to us the advantages of the incubators they could have made if they'd had the proper materials, but the ones they were making worked.

"The Poles are very capable. They just have a very broken economy. Although people are fearful of the inflation and unemployment they are facing, with the liberalization, they are very optimistic and excited about the future."

As the countries of Eastern Europe reenter the global economy, trade will be vital to their development.

"Trade could play a much bigger role than aid, no question about it," Blackton says. "These are not fledgling economies with nothing to buy and sell in the international marketplace. They're relatively sophisticated countries that have been crippled by overly centralized economic management but that have a real role as both importers and exporters as they shed their dependence on the Soviet Union and come into global trading. Much of our early foreign assistance will be aimed at facilitating the quick entry of Poland and Hungary into the international trade process."

#### Providing Trade Opportunities

"One of the big problems that Poland, in particular, faces is that it has a big industrial sector that makes third-rate goods that can be sold to the Soviet Union but really aren't marketable in the West. One of the challenges for the Poles is to restructure their industry, get it in private hands, make it efficient, bring in the standards of quality they need to trade products with America, with Western Europe, with Japan, with Canada."

As the international assistance effort gets under way, the United States is coordinating its aid to Poland and Hungary with that of other international donors. A coalition of donors—known as the Group of 24, or G24—that includes the United States, Canada, Japan and the countries of Western Europe is working

together "to provide solid support to the reform process that has begun in Poland and Hungary toward a pluralistic democratic system and a market economy."

In January, the Japanese government announced a \$1 billion economic aid package for Poland and Hungary.

Each country will receive \$500 million in loans from the Japanese Export-Import Bank over three years.

"President Bush has made clear that the United States is prepared to aid any of the Eastern European countries that makes a commitment to free markets and to democracy," Blackton says. "There's a test of political will that has to be met, and we see that process

taking place now in Czechoslovakia and, at a slightly slower rate, in East Germany. It seems clear that there will be a place in our aid program in the year ahead for those two countries.

"The recent events in Romania are encouraging but don't constitute yet the full commitment to democratic institutions in a market economy that would be necessary for general U.S. assistance to flow, but we have been providing humanitarian aid such as medical supplies. The rest of Eastern Europe—Bulgaria, Albania and Yugoslavia—are in varying stages of reform. Their participation in the aid program may be somewhat farther down the road."

"The revolutionary changes in that part of Europe...are changes above all in the minds of men, in their vision of the future," Secretary of State James A. Baker III said last March.

"People want freedom: freedom of the mind; freedom in the home; freedom in the workplace; and free governments. And these freedoms will heal the wounds inflicted by stagnation and tyranny."

As the rising tide of reform continues to swell across Eastern Europe, the United States stands ready to help build a new order founded in freedom and prosperity to benefit America, Europe and the world.

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