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ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
8878	MEMO	MCFARLANE TO PRESIDENT REAGAN RE PAPERS ON THE SOVIET UNION: SOVIET INSTRUMENTS OF CONTROL R 12/13/2007 F06-114/6	2	ND	B1
8882	PAPER	THE SOVIET POLITICAL POLICE R 12/13/2007 F06-114/6	5	ND	B1
8883	PAPER	THE SOVIET MILITARY R 12/13/2007 F06-114/6	5	ND	B1
8879	MEMO	MCFARLANE TO PRESIDENT REAGAN RE PAPERS ON THE SOVIET UNION: GORBACHEV'S DOMESTIC AGENDA PAR 12/22/2015 M554/1	6	ND	B1
8880	PAPER	THE SOVIET ECONOMY IN PERSPECTIVE R 12/27/2012 M554/1	6	ND	B1
8881	PAPER	USSR: THE ROLE OF FOREIGN TRADE IN THE ECONOMY PAR 12/27/2012 M554/1; UPHELD 11/16/2015 F06-116/6 #8881	9	ND	B1

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NATIONAL SECURITY COUNCIL
WASHINGTON D.C. 20506~~SECRET~~

September 30, 1985

ACTION

MEMORANDUM FOR ROBERT C. MCFARLANE

FROM: JACK MATLOCK *km*

SUBJECT: Papers on the Soviet Union: Instruments of Control

Attached is the next group of papers on the Soviet Union, which deals with the instruments by which the regime exercises its totalitarian control of Soviet society.

RECOMMENDATION

That you sign the Memorandum to the President at TAB I.

Approve _____ Disapprove _____

Attachments:

TAB I Memorandum to the President

Tab A	The Communist Party of the Soviet Union
Tab B	Nomenklatura: The USSR Patronage System
Tab C	The Soviet Political Police
Tab D	The Soviet Military

DECLASSIFIED

White House Guidelines, August 28, 1997
By smf NARA, Date 6/7/02~~SECRET~~

Declassify on: OADR

THE WHITE HOUSE
WASHINGTON~~SECRET~~INFORMATION

MEMORANDUM FOR THE PRESIDENT

FROM: ROBERT C. MCFARLANE

SUBJECT: Papers on the Soviet Union: Soviet Instruments of Control

You have previously read two groups of papers, dealing with the sources of Soviet behavior and the problems of Soviet society. Those attached here deal with the principal instruments by which the top Communist Party leadership controls the society.

The Soviet Union, of course, has a governmental structure which in theory is not much different from that in other countries, except that there is literally no private sector. Everything, from farms to schools to factories to banks to sporting clubs, is administered by the government. The government even has a department which oversees those churches which are allowed to operate legally. The formal government, however, though omnipresent, merely administers the country. It is in fact subordinate to the Communist Party, which uses it to implement policy the Party sets, and in fact is run by persons who are themselves Party members and subject to Party discipline. The whole country is run by a chain of "interlocking directorates" which receive decisions from above and are expected to implement them with total discipline.

The lines of real authority, therefore, run top-down from the Communist Party leadership, with the ultimate policy makers being the thirteen full members of the party Politburo. Though the Communist Party calls itself a political party, it is of course totally unlike anything we would call a political party. It is not made up of private citizens who join together to campaign and try to win elections, but of a co-opted elite group, selected on the basis of loyalty and discipline, whose function is to see to it that the policies set by the top leadership are implemented throughout the society. Even the Soviet Constitution, which sounds very liberal in theory, provides that the Communist Party will be the "leading core" of all organizations, whether governmental or "non-governmental." Not even a sporting society or a chess club can be organized without the sufferance and supervision of Communist Party officials.

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DECLASSIFIED

NLS F06-114/6#8878BY h05 NARA, DATE 12/13/07

The paper at Tab A describes how the Communist Party is organized and how it applies its control to the society. Over the decades of communist rule in Russia, a new controlling elite has formed under Communist Party auspices, usually called the nomenklatura: those persons who occupy supervisory, influential or prominent positions, and whose appointment therefore requires the approval of higher party authority.

The nomenklatura forms the privileged class in the Soviet Union, those who enjoy a significantly higher standard of living than their compatriots, and also the trappings and perquisites of authority. It shows a tendency of becoming hereditary, since members use their connections to get their children into the best schools and into nomenklatura jobs. It also has an international aspect, since similar elite classes have been created in those countries under Soviet domination, with the result that -- for example -- the nomenklatura in Czechoslovakia tends to identify its interests with the nomenklatura of the Soviet Union, not with their fellow Czechs and Slovaks. (It is a bit like the aristocracy in seventeenth and eighteenth century Europe, which tended to support each other across national boundaries if there was a challenge from within to the rule of the aristocracy.) The paper at Tab B describes how it is organized and how it operates in the Soviet Union.

In many ways, the Soviet Union is run more like an organized criminal organization in the West than like a government. Using this analogy, one can say that if the Party forms the control elite, the secret police (KGB) and the military are its "enforcers," the first in a direct sense, and the second as a reserve if things ever threaten to get out of hand. Both institutions are totally controlled by the Communist Party, and provide the muscle if physical coercion is required. Papers describing these two institutions are at Tabs C and D.

Recommendation

OKNo

That you read the papers attached as general background for your upcoming meeting with Gorbachev.

Attachments:

Tab A	The Communist Party of the Soviet Union
Tab B	Nomenklatura: The USSR Patronage System
Tab C	The Soviet Political Police
Tab D	The Soviet Military

Prepared by:
Jack F. Matlock

cc: The Vice President

~~SECRET~~

THE COMMUNIST PARTY OF THE SOVIET UNION

The Communist party is the core institution of the Soviet political system, focus of the levers of power and prestige in the USSR. Every branch of the bureaucracy--state, economic, military and police--is subordinated to its control. At the same time, the party is the guardian and interpreter of Marxist ideology and responsible for indoctrinating the population with the ideas and values of Soviet-style communism.

The CPSU now numbers over 18 million members (including 700,000 candidates, i.e., probationers), encompassing about 6 percent of the adult population. The party does not solicit adherents; it chooses its members. Prospective candidates are carefully screened. Each must be recommended by three persons who have already been party members for at least five years. White-collar workers are prime targets for recruitment. They made up close to half of the membership in 1983, even though accounting for only a quarter of the general population.

Party members all belong to a party organization at their place of work. There are 426,000 of these primary party organizations in the Soviet Union, and they exist in every factory, office, farm, school, military unit -- in short, in every organized unit in the society. Each party member is expected to stimulate production within his own primary organization; these units in turn provide the central authorities with a vehicle for constant pressure on lower echelon officials.

Every member has the duty to "master Marxist-Leninist theory, raise his ideological level, and contribute to the molding and rearing of the man of communist society." The political training of communists ranges from short-term evening and correspondence courses to the university-level Higher Party School in Moscow which has a regular four-year curriculum. Training at fulltime party schools is regarded as so important that middle-aged officials holding responsibilities as great as those of the governor of an American state are sent to the schools before being given new assignments.

Mass Organizations

Several mass organizations exist outside the party framework, but operate under its close and direct supervision. The Communist Youth League, Komsomol, is the most important of these. Its 41-million membership includes a majority of the country's adolescents (aged 14-18) and a substantial minority of the 19-26 age group. The Komsomol not only serves to indoctrinate the youth but it is also a testing and screening agency for prospective CPSU members. Furthermore, the Youth League exercises tutelage over the Pioneers, the organization to which all children of primary school age (10-15) belong.

The Soviet trade unions, with some 130 million members, serve the party by stimulating production and prompting "socialist emulation," competitive campaigns aimed at raising productivity. They also administer social insurance funds, and to a limited extent defend worker rights. Other mass organizations effectively run by the party include the Knowledge Society (Znaniye), an adult-education body with over 1 million members, and DOSAAF (Volunteer Society for Cooperation with the Army, Air Force, and Navy), which fosters military-type sports for civilians and school children.

Party Structure

Theoretically, the CPSU's sovereign organ is the Party Congress which, by statute, meets every five years. It is a gathering of some 5000 delegates which, among other functions, elects the Central Committee, which is responsible for policymaking in the interim between congresses. The Central Committee (470 members - 319 full and 151 alternate) in turn formally elects the members of smaller executive bodies to handle the day-to-day matters -- in particular the Politburo for policy decision, and the Secretariat to oversee and control party and government operations.

In practice, however, these two latter bodies are the decision making organs of the party, the peak of the CPSU's nearly perfect bureaucratic pyramid. The Politburo and Secretariat control the appointment of the regional secretaries throughout the country and, through them, the lesser secretaries down to the lowest echelons. The Secretariat sends binding "recommendations" for major personnel changes to the non-Russian republics or regional-level party offices, and often has its executives monitor the electoral plenums at those levels which implement its "recommendations."

The whole process of electing the party committees that choose the secretaries at each level is actually controlled by the very secretaries who are supposed to be elected by those same subordinates. Each non-Russian republic or regional party headquarters has an Organizational Party Work Department to manage the process. And the top leadership in Moscow controls the election of delegates to the sovereign party congress, which, through the Central Committee it elects, technically elects the General Secretary.

In the 5-year intervals between congresses, supreme authority in the CPSU is formally delegated to the Central Committee to which most of the important officials of the USSR belong. They are drawn from all segments of the bureaucracy, but most come from the party apparatus itself. (The party apparatus is the body of fulltime officials that arranges implementation of decisions, manipulates elections and controls discussions in party meetings.)

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The Central Committee's brief and infrequent plenary meetings (two-three per year) rule out its management of day-to-day decision-making. Consequently, the real focus of Soviet power is the Politburo. It is now composed of 13 voting members and 5 alternates, and meets weekly (usually on Thursday afternoons) to discuss and decide on major issues. The General Secretary (Gorbachev) is de facto chairman of the Politburo, which in recent years has seemed to reach most of its decisions by consensus.

The Party Secretariat -- a sort of NSC staff estimated to have as high as 10,000 employees -- sets the Politburo agenda, provides the requisite documentation and oversees implementation of Politburo decisions. Of the 11 Secretaries, Gorbachev, Ligachev and Ryzhkov are full Politburo members; 2 of the 5 Politburo alternates are also central party Secretaries. (Six Party Secretaries hold no status in the Politburo).

With the exception of the General Secretary, each of the Secretaries exercises supervision over a specific sphere of operations. He does so via departments of the Secretariat which run parallel to all major state bodies and administer key areas of Soviet society and foreign affairs. A crucial function of the Secretariat's Organizational Party Work Department, for example, is controlling the assignments of the high and medium-level personnel to party and Komsomol organizations, as well as to State and trade union agencies.

Equally close to the heart of party operations are the Secretariat departments for ideology and indoctrination. These include the Propaganda, Culture, and Science and Educational Institutions Departments. Their function is to assure that every medium for conveyin ideas is actively and properly promoting the objectives of the regime.

Personal rivalries and frictions permeate the CPSU. Corruption is known to be rife from top to bottom. And there has been an increasing tendency among the youth to regard the Komsomol as a boring and restrictive institution. Nevertheless, the CPSU has succeeded in creating a strong amalgam of self-interest and pride in achievement which binds many to the Soviet system. Gorbachev is clearly eager to overhaul the party apparatus to make it more responsive to economic management, committed to reform and to rejuvenate its ranks. But neither he nor the apparatchiki have any intent of introducing changes that threaten to loosen their present grip on every facet of Soviet life.

Prepared by:
SPloss
Department of State

NOMENKLATURA: THE USSR'S PATRONAGE SYSTEM

Structure

The Soviet institution of nomenklatura amounts to an encyclopedia of "plum books." Its rules dictate that all key jobs throughout the USSR -- in the party bureaucracy, government, economy, cultural life, military or academic establishments, even agriculture -- be reserved for candidates picked and approved by the supervisory party organ. Stalin developed this system of personnel patronage as a vehicle for gaining control of both party and society. His successors have enlarged on it to such an extent that it has no real parallel in the noncommunist world. the Soviet party machine has greater power in co-opting, black-balling and ejecting personnel than does the most exclusive club in the west. Inside, one is entitled to a lifestyle befitting the position; outside, one is relegated to the "masses," to scramble as the average Soviet for an existence. Ousted from the system one is excluded from even marginal benefits available to the masses.

The so-called nomenklatura are the elite of the USSR, the most prominent and best rewarded people in each professional group, all the decision and policymakers. They fall into various categories:

- a) The political elite, consisting of the leaders of the party apparatchiki.
- b) The managerial elite, who actually operate the government, the economy, the armed forces, the police apparatus, and other parts of the Soviet system.
- c) The cultural and scientific elite, the artists, scientists, writers, performers, and scholars.

These groups differ in political influence, social status, prominence, and rewards. The political elite are those in the Communist hierarchy who enjoy decisive influence. The managerial elite, though not without political power, essentially occupy nonpolitical career tracks. Although the cultural and scientific elite wield relatively little political influence; they enjoy greater prominence: members of this group are often more visible and better paid than are the managers or political leaders.

The political and managerial elite are known in Soviet parlance as "leadership cadres". All in all they are estimated to number around 4 million. About 500,000 are top-level bureaucrats, half of them in the party apparatus itself. Another 500,000 hold government positions. Some 2 million are the economic managers who are regarded as the cream of the economic and technical intelligentsia. The rest occupy management or supervisory positions ranging from shop stewards to kolkhoz chairmen.

Getting Ahead

Ability and expertise are only one element in getting to the top in Soviet society. Conformity with the current party line and mastery of the techniques of maneuvering within the system on the one hand, plus personal patronage from within the nomenklatura itself on the other, are the aids on which the ambitious rely.

The leaders of the USSR have long viewed economic efficiency and consumer satisfaction as matters of secondary importance. Their primary objective has always been a maximization of the national power of the USSR. And the consolidation, expansion and preservation of their own power is justified as a means to that end. That in turn justifies the higher income and perquisites of the ruling class.

Life Style

The nomenklatura by and large enjoy a life style well above the drab level of reality faced by the average Soviet citizen. The upper crust has its cars and special access to goods and services. Its members move in a tight, private universe of suburban dachas, downtown co-operative apartments, exclusive clubs and vacation resorts. The sons and daughters have preferred access to the better schools and often intermarry. Those further down the pecking order have similar special stores, housing, resorts and benefits befitting their rank.

Money income is the least important advantage of making it in the USSR. The real boons derive from a compendium of tangible and intangible privileges: greater freedom, better medical care, the opportunity to travel abroad and ready access to domestic and imported goods unavailable to the average citizen at any time.

Many in the ruling class experience such a sheltered existence they have not the faintest idea how the rest of the country really lives. Others -- the collective farm chairmen for example -- are more directly exposed but still are far better off than their non-nomenklatura associates. Gorbachev has spearheaded a drive against the isolation of the apparatchiki from the masses, but the privileges of the Gorbachevs will unquestionably remain palatial by Soviet standards. Nor is there any real popular resentment of the advantages enjoyed by Raisa and the other "wives of" since their life style is not flaunted before the public. The gap between the elite and the masses is studiously ignored by the media.

Other Side of the Coin

The material advantages enjoyed by the power elite would be reduced if a larger share of the national product were to be allocated to economic investment and mass consumption. As a result, the economic managers' advocacy of greater recognition of economic factors and for greater professional autonomy constantly runs into opposition from the political decision makers.

Even deeper is the tension between the ruling elite and the prestigious intellectuals who advocate greater individual freedom and more personal property. Although many cultural figures are conformists and as jealous of their perks as the power elite, some have advocated an easing of the internal control system under the rubric of "de-Stalinization." One of their targets is the party apparatus and its total domination of the elite structure. The party ideologists for their part are determined to keep a tight rein on the social sciences and the arts; they see their mission as the preservation of doctrinal purity which in turn justifies the rule of the party, and of course, their own privileged existence.

A generational conflict has also been developing within the nomenklatura itself, given the marked age difference between the CPSU leadership and its rank and file. While about 40 percent of the party's 18 million members are under 40 years of age (6.9 million), there is no one under 50 in the top leadership at all. And while men and women are represented about equally within the educated strata of Soviet society, only 9 women are full members of the Central Committee. (Women makeup 27 percent of the party membership.) Nor is any woman now included in the party's supreme leadership.

United We Stand

The interests of the nomenklatura are diverse: there are orthodox and pragmatic conservatives as well as moderate reformers within the policymaking bodies of the regime. They are frequently at odds among themselves, usually over questions which affect the status of different groupings within the nomenklatura itself. But there is no open opposition at any level or within any group to the system per se. After all, careers, lifestyle, future, and family well-being are all dependent on and a function of that system.

For the sake of efficiency, Gorbachev apparently is prepared to make certain concessions to dissatisfied elements of the elite. He has urged more operational autonomy for lower managerial personnel, and encouraged creative artists to be more

realistic in their portrayals of life. The younger generation and women have been promised a larger role in the conduct of political affairs. In the field of domestic policy, the pressure is on for less cronyism and nepotism and more specialized knowledge and expertise as the major criteria for advancement. But the Gorbachev-led political elite is still part of the nomenklatura, and any basic reform of the system would threaten its power and its perks. Whatever changes Gorbachev might introduce -- and even the smallest will run into opposition from some quarter -- the nomenklatura as a whole will insist on retaining control of the social processes in the USSR. It cannot do otherwise and still preserve communist rule in the USSR.

Prepared by:
SPloss
Department of State

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THE SOVIET POLITICAL POLICE

Lenin created the "Sword and Shield of the Revolution"--the Cheka--to crush domestic opposition and to protect the Bolshevik party from its enemies, using any and all means, including terror. By any standard, the Cheka succeeded brilliantly and bloodily. Its present-day incarnation, the KGB, has become one of the three pillars of the Soviet regime, the other two being the party and the military.

There is no American analog for the KGB: apart from a political role which would be unthinkable in a democracy, it has the functions of the CIA, the FBI, the Secret Service, the Coast Guard, the NSA, the EPS, and it has two divisions of heavily armed troops. The KGB also controls resources and uses tactics which in the US could only be likened to those of organized crime. Because of strict Soviet secrecy, no accurate figure on personnel strength is available for the secret police or even for the regular police.

Historical Background

The Cheka has strong roots in Russian history. Stalin in his heyday gave favorable publicity to Tsar Ivan the Terrible's equivalent institution, the Oprichnina, which ruthlessly and bloodily suppressed the Tsar's enemies. Although much subdued compared to its 16th century predecessor, the Tsarist Okhrana was the main persecutor of the Bolsheviks prior to the 1917 Revolution.

Soviet propaganda on the glamor and romance of the Cheka goes back to its early period under Felix Dzerzhinskiy when it launched "Red Terror" against the Bolsheviks' domestic and foreign enemies. This was the time when Operation Trust snared the feared British agent Sidney Reilly and when "Iron Felix" and his underlings were hailed as the "knights of the Revolution."

Its image worsened in the 1930s when the secret police participated in Stalin's assaults against the peasantry and destroyed the Old Bolsheviks and the Red Army's officer corps. Led by such men as Yagoda and Yezhov, it doomed millions to forced labor in the GULAG forced labor camps under inhuman conditions and with appalling casualty rates. During World War II it conducted a successful espionage effort against the Nazis and created a special wartime disciplinary unit known as SMERSH (Death to Spies). The GULAG population was at a peak--an estimated 15 million--in the postwar reconstruction period, swollen by captured Axis prisoners and Soviet victims of Stalin's harsh policies.

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BY LOS NARA, DATE 12/13/07

The KGB's Political Role after Stalin

Following the execution of Lavrentiy Beriya after Stalin's death in 1953, the KGB gradually became intertwined with leadership politics and has at key moments played a role in leadership successions.

As the agency which provides the leadership with bodyguards and secure communications, the KGB could also isolate the top leader at a critical moment. When the Politburo members in October 1964 chose to oust Khrushchev, the conspirators took care to prevent Khrushchev from mobilizing his allies (as he had done in June 1957). The party secretary for security, Alexander Shelepin, called upon his protege, the KGB chief at that time, to cut off Khrushchev's communications from his vacation dacha to Moscow. After the coup Khrushchev was flown back to Moscow and expelled from the Politburo.

The KGB's resources were used in 1982 by Yuriy Andropov (who gained the political police job after Brezhnev's successful power play against Shelepin in 1967) to mount a campaign aimed at capturing the succession from Brezhnev's putative heir Chernenko. Andropov undertook in March 1982 a widely leaked investigation of corruption on the part of Brezhnev's political supporters and even Brezhnev's daughter Galina. Andropov's goal was to taint Brezhnev's associates and to demonstrate that Brezhnev could no longer protect his followers. The most publicized target was Galina Brezhneva's association with the colorful Boris the Gypsy, a shady figure involved in underworld jewel dealings. The campaign was successful; Andropov left the KGB when he acquired the party secretaryship in May. Memories of the 1930s are still strong enough that he could not move directly from the KGB into Brezhnev's shoes.

The Gorbachev-KGB Link

As his health declined, Andropov pushed Gorbachev as his successor but could not determine the succession. During Chernenko's reign, the KGB's disappointment and vexation over having lost its moment of glory with the death of Andropov was widely bruited. It was equally clear that the KGB as an institution sided with Gorbachev, viewing him as Andropov's heir. Its loyalties were repaid upon Gorbachev's accession in March of this year. Chebrikov, brought into the KGB with Andropov in 1967 and named by him as KGB chief in 1982, was promoted to full member of the Politburo this April, obviously as a member of Gorbachev's ruling coterie.

Two members of the Politburo--Chebrikov and Aliyev, who was the Azerbaydzhan KGB chief until he became the republic party chief--have had professional experience in the KGB. Obviously, KGB prestige and influence are now high and its relations with Gorbachev are demonstrably supportive.

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The KGB's Domestic Security Role

Like the party, the KGB is virtually everywhere in Soviet society. There are KGB units on every level of government. Every major factory and institution has its "first department" which handles security matters, including employee clearances and access to classified information. The KGB official who sits on every party committee probably has the last word on security issues, and even a republic first secretary is bound to respect the KGB representative on the republic party bureau.

As a true political police, KGB local units have a widespread net of informers who report on their fellow workers and neighbors. Citizens are encouraged to report deviant speech and behavior to the authorities. Unauthorized assemblies and publications are searched out and terminated, sometimes with significant criminal penalties for the participants.

The KGB has organized special units to monitor religious organizations and nationalist activities. A voluminous literature exists abroad on these activities in addition to the documentation of the KGB suppression of political dissent and control over emigration.

The political police function extends to the armed forces in which a net of secret informants reports on moods and attitudes among the troops. Any security incident draws the attention of KGB investigators.

In addition to their security responsibilities, the KGB has special police jurisdiction over cases involving large amounts of foreign currency, gold, and jewels. This conveniently permitted Andropov in 1982 to investigate the scandals involving Brezhnev's daughter Galina. Otherwise, the regular police, headed by Brezhnev's crony Shchelokov, could have whitewashed the affair.

KGB Influence over the Civilian Police

The KGB under Andropov began an extensive purge of the regular police following the ouster of MVD minister Shchelokov in December 1982. (Shchelokov was disgraced and reportedly committed suicide in December 1984 to avoid a trial for corruption.) The regular police or MVD is now headed by a former KGB official and several other KGB officials were transferred to the MVD's top leadership. In addition, a new political administration was created in the MVD and a large number of party members were detailed to police work in an effort to purge and upgrade the police, which is now playing a larger role in Gorbachev's anti-corruption and anti-alcohol

campaigns. There is no question about the superior status of the KGB compared to the MVD and its ability to intervene in the jurisdiction and processes of the MVD and the courts, but there is also a strong history of bad relations between the two police agencies which occasionally erupts in ugly incidents.

Foreign Intelligence and Counter Intelligence

Abroad, the KGB is especially active in intelligence collection--political, military, technical--under diplomatic, journalistic, and business cover. It is without doubt the world's largest and most active intelligence service, and it also draws upon the resources of its Warsaw Pact allies to complement its intelligence effort abroad.

KGB foreign reporting goes independently of foreign ministry reporting to Moscow where it is coordinated and submitted to the Politburo. KGB activities and reporting partly parallel and duplicate those of the Defense Ministry's Main Intelligence Administration (GRU) and inevitably there is rivalry between the two.

The KGB also engages in covert action "active measures," agent-of-influence operations, clandestine support of foreign political parties, and forgeries and bribery to get press placement of Soviet materials.

KGB counterintelligence work most often shows up in public accounts of agent arrests and the declaration of foreign diplomats persona non grata, but some of the counter-intelligence materials published in the Soviet press must be put into the prophylactic propaganda category, aimed primarily at Soviet citizens. However, Western diplomats in Moscow and Leningrad are primary, but not sole, targets of KGB counter-intelligence efforts. Heavy surveillance, active attempts to penetrate the staff and buildings, and the creation of effective obstacles between Soviet citizens and foreigners are permanent elements in the KGB's operations.

Soviet Views of the KGB

While Soviet dissidents who have faced KGB harassment see it as the regime's arm of repression, most Soviet citizens seem to regard the KGB as a necessary part of a well-ordered state. While Soviet citizens -- are skeptical regarding their media, the flood of books, films and TV glorifying the KGB's exploits in counter-intelligence and intelligence leaves its impression. But the public's respect for the KGB still rests mostly on fear.

Careerists look upon the secret police as an avenue for upward mobility. The KGB successfully recruits the cream of university graduates for careers in overseas intelligence work, careers often under diplomatic and journalistic guise which are regarded as more rewarding and interesting than most.

Prepared by:
DGraves
Department of State

THE SOVIET MILITARY

Civil-military relations in the Soviet Union are replete with paradox. The military as an institution is a dominant force in national security decision-making, yet it is also under firm party control.

Civilian authority sets the broad outlines of defense policy but relies almost exclusively on military expertise to elaborate the military-technical side of strategy and doctrine. On military planning and technical assessments, there is no civilian counter weight to the General Staff.

Despite its internal bureaucratic politics, interservice rivalries, and long history of alliances and intrigues between individual military and civilian leaders, there is no evidence that the military has ever plotted to take power. The military as an institution has not aspired to rule. Nevertheless, it has sought to protect its own interests and professionalism.

In recent years, military figures have been much in the limelight. It has been primarily the arms control process and the civilian leadership's need for expert opinion which has put them there.

Anti-Bonapartist Tradition

There is a longstanding tradition of the importance of military power in Soviet life. Externally, Russian and now Soviet security and position in the world have rested primarily on military strength. Domestically, both Tsars and General Secretaries have played up military values and, when possible, their own military careers in order to buttress personal and regime authority.

Yet the military establishment itself is subject to more rigorous political controls than any other institution in the Soviet system. In both pre-and post-revolutionary societies, the military has been subservient to political authority.

This seeming inconsistency -- on the one hand, the Soviets emulate military values and, on the other, distrust the military as an institution -- reflects an anti-Bonapartist tradition in Soviet and Russian history. Indeed, the Bolsheviks who took power in 1917 frequently used analogies to the French revolution to discuss political developments in Russia, including the danger of a man on horseback taking over the revolution.

This wariness of the military stems in part from traditional revolutionary distrust of standing professional armies. Marx and

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Engels viewed standing armies as the tools of the 19th century monarchic-bourgeois states. Although their doctrine eventually evolved to strongly supporting the idea of a class-based revolutionary force, they left undefined the role of the armed forces in a post-revolutionary socialist society.

Lenin did not reconcile himself to the need for a standing army until after the 1917 revolution, and even then the Bolsheviks' first order of business was to destroy the old army. The early Bolsheviks moved cautiously in building the new Red Army, emphasizing the principles of voluntary recruitment and elected commanders -- thus nullifying efforts to turn the new army into an effective fighting force. When War Commissar Trotsky, with Lenin's approval, finally undertook to transform the Red Army into a centralized, efficient professional force, he also incorporated the idea of political officers at every rank who could check the actions of their military counterparts.

Checks and Balances

Today, a set of extensive institutional arrangements is in place intended to ensure civilian control over the military.

--The Main Political Administration (MPA) is the party's political watchdog in the armed forces. As Trotsky envisaged, political officers are assigned to every level down to battalion and in general act as representatives of the party. Although the MPA reports to the Ministry of Defense, it also functions as a distinct department of the CPSU Central Committee and is ultimately accountable to the Politburo for the military's political reliability.

--In addition to the MPA network, party and Komsomol membership is encouraged and widespread -- over ninety percent of officers and enlisted men belong to one or the other of these bodies.

--On top of all this, the KGB maintains its own secret agents throughout the military establishment.

These arrangements underscore the continuing importance for Soviet leaders of political loyalty over military interests. The gravest charge made against Marshal Zhukov before his fall from grace in 1957 was that he had sought to eliminate party control. More recently, Marshal Ogarkov's demotion from Chief of Staff a year ago was accompanied by intimations that he harbored "unparty-like tendencies."

Civil-Military Interaction at the Top

Even though it is under Party Control, the military is one of the most highly organized and influential interest groups in the

USSR. It has effectively used this influence to protect its own general interests (with regard to resource allocation, for instance) and professionalism.

Nevertheless, the military has only played an ancillary role in Soviet leadership consideration of broader policy questions. This is partly attributable to the fact that in upper levels of the party, the military carries relatively little weight. Only two professional military leaders have been full Politburo members: Zhukov (1956-57) and Grechko (1967-76). Ustinov, who succeeded Grechko as Defense Minister in 1976, was a civilian Politburo member who had spent his entire career dealing with defense production and was only given the military rank of Marshal when he became Defense Minister. The present Defense Minister, Marshal Sokolov, is a long-time career military officer. He was promoted to candidate member of the Politburo in April 1985, but is widely regarded as a transitional figure with little political clout.

Likewise, the military's representation on the Central Committee is minimal. In 1981, only 30 professional military officers were candidate or full members, about six percent of total Central Committee membership.

The party's predominance over the military has allowed civilian leaders to meddle in military affairs at times. Stalin of course, decimated the high command in the purges of the late 1930s, and after WWII moved quickly to reduce Marshall Zhukov's stature.

Zhukov later regained his influence under Khrushchev. In 1957, Zhukov as Defense Minister was instrumental in helping Khrushchev put down a challenge from his colleagues in the Politburo. Khrushchev, however, soon ousted his erstwhile ally and undertook to overturn measures instituted under Zhukov to bolster professional autonomy within the armed forces. Khrushchev even sought to intervene personally in the formulation of military strategy, though he did not attempt to create an institutional rival to the General Staff.

Gorbachev Continues the Tradition

Gorbachev presumably assumed the function of chairman of the Defense Council (where actual decision-making on national security issues -- including arms control -- appears to be centered) and, in effect, supreme commander-in-chief when he became General Secretary. Events over the past year do not suggest that the military has enjoyed greater than usual influence as a result of the civilian leadership transition.

Although Gorbachev has pushed for increased industrial investment as the number one priority in the next five-year plan (1986-90), he has also spoken out against cutting defense programs. At a

June Central Committee meeting, he reaffirmed that "requisite funds" for the country's defense would be maintained. In his V-E Day address, Gorbachev stated that the importance of a "military-political" upbringing for Soviet citizens was growing.

Following the July 1 removal of Grigoriy Romanov as the CPSU Secretary responsible for military affairs, Gorbachev has moved vigorously to assert his leadership in this sphere. On July 10 he delivered an address to an unusual meeting of top military officers in Minsk and immediately afterward a number of key changes in military personnel began surfacing. Following the pattern of his personnel appointments in the civilian sphere, he replaced several older military leaders with younger -- in some cases relatively junior -- people.

The Soviet Military: Coming of Age

The military has gradually assumed a more important role in national security decision-making over the past two decades and, in the process, has assumed a higher public profile. This has largely been due to the arms control process and increasingly sophisticated weaponry which have generated the civilian leadership's need for more military expertise and advice. The military has consequently also become more involved in decision-making on arms control itself. Because of the General Staff's technical expertise and its function, in effect, as executive secretariat to the Defense Council, the military is well positioned to argue its views and try to shape the internal debate in this area.

In the early days, the role of the military in the arms control process appeared to be limited to exercising a veto option over any given proposal, after which it stepped back. In the first SALT negotiations, sensitive information on the Soviet side appeared to be strictly compartmented and there was little interaction between military and civilian elements. When Ogarkov was a member of the Soviet delegation in the early 1970s, he once appealed to an American negotiator not to discuss classified information in front of Soviet civilian team members,

In recent years, however, the Soviets seem to have adopted more of an American style in the internal arms control process. Now the military is much more involved in interacting on an ongoing basis with other components of the Soviet national security structure both in Moscow and on the various negotiating teams in Geneva, Vienna, and Stockholm. The Ministry of Foreign Affairs has its own stable of arms control experts, and the major Soviet negotiating teams are all led by diplomats with many years of negotiating experience. Nevertheless, the Soviets have no counterpart either to ACDA or the oversight of Congressional committees. Few, if any, civilians would dare challenge the professional military analysis of their requirements.

The military has also assumed a more prominent role in explaining and advancing Soviet positions on military matters, particularly with regard to the arms control process. By the beginning of the INF period, it was Defense Minister Ustinov who in October 1979 in Pravda began to lay out the public argument that an INF balance already existed. Much of the Soviet INF argument since then has been framed around the assertion that the American deployment would upset this balance, with Defense Ministry officials taking the lead in its public formulation.

Both former Chief of the General Staff Ogarkov and now his successor Akhromeyev, as well as Col. Gen. N.F. Chervov, head of the Defense Ministry's arms control directorate, have been active public spokesmen for Soviet positions. Far from staying in the background, as would have been traditionally expected, they have been at the cutting edge of publicly developing and explicating Soviet positions.

Prepared by:
JParker/KPuschel
Department of State

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NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

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October 30, 1985

MEMORANDUM FOR JOHNATHAN MILLER

FROM: JACK F. MATLOCK *JFM*

SUBJECT: Soviet Films for the President

I think it would be extremely useful for the President to see two Soviet films before his November meeting with Gorbachev. The first has been selected to help give him a feel for everyday life in the USSR. The second will focus on Soviet perceptions of World War II.

I recommend that the President look at "Moscow Doesn't Believe in Tears" this weekend at Camp David. It traces the marriages of three young women and, in the process, provides a rare look at the social pretensions and prejudices at work in Soviet society. It runs 2 hours 45 minutes. The 35 mm reels are in the East Wing projection room.

Attachment

Synopsis of "Moscow Doesn't Believe in Tears"

~~LIMITED OFFICIAL USE~~ *smf*
6/2/02

MOSCOW DOESN'T BELIEVE IN TEARS

This film traces the romances and marriages of three young Soviet women. In the process it is unusually frank in its portrayal of Soviet life - revealing many of its pretensions and prejudices. The story's heroine rises from simple factory worker to plant manager (a Soviet Horatio Alger) despite the burdens of being a single parent.

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NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

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October 7, 1985

ACTION

MEMORANDUM FOR ROBERT C. MCFARLANE

FROM: JACK F. MATLOCK *JFM*

SUBJECT: Papers on the Soviet Union: The Domestic Agenda

Attached is the next group of background papers for the President on the Soviet Union. It deals with Gorbachev's domestic agenda, particularly the economic challenges he faces.

RECOMMENDATION

That you sign the memorandum at Tab I forwarding the papers to the President.

Approve _____ Disapprove _____

That you approve Bill Martin's sending copies of the papers to Secretary Shultz and Don Regan.

Approve _____ Disapprove _____

Attachments

Tab I Memorandum to the President

Tab A Gorbachev's Domestic Agenda
Tab B The Soviet Economy in Perspective
Tab C USSR: The Role of Foreign Trade in the Economy

Tab II Memorandum - Martin to Platt

Tab III Memorandum - Martin to Chew

DECLASSIFIED
White House Guidelines, August 28, 1997
By *smf* NARA, Date *6/7/02*

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Declassify on: OADR

THE WHITE HOUSE
WASHINGTON~~SECRET~~INFORMATION

MEMORANDUM FOR THE PRESIDENT

FROM: ROBERT C. MCFARLANE

SUBJECT: Papers on the Soviet Union: Gorbachev's Domestic Agenda

You have previously read three groups of papers on the Soviet Union. They dealt with the sources of Soviet behavior, the problems of Soviet society, and the instruments of control. The attached group looks at Gorbachev's domestic agenda, focusing particularly on economic concerns.

Gorbachev's domestic priorities can roughly be divided into three categories: consolidating his power, restoring public confidence, and revitalizing the economy. He has moved quickly in the first two areas, concentrating first and foremost on getting his people in key positions. By July, after only four months in office, he had already appointed more new people to the Politburo than either of his two immediate predecessors. This process is still underway.

To help restore public confidence in a leadership which had become tainted with corruption in Brezhnev's declining years, Gorbachev has vigorously carried on the anti-corruption drive begun under Andropov and supplemented it with an anti-alcohol campaign. In addition, he has carefully tailored his public appearances and meetings with the Soviet man-in-the-street to give the appearance of knowing and caring about the life of the average citizen.

Revitalizing the economy may well be the toughest challenge of them all - and if he does not succeed, he will be unable in the long run to restore public confidence in the Soviet leadership. Gorbachev has begun by replacing long-tenured, complacent bureaucrats in the Party's Central Committee and in the Council of Ministers. Only recently, on September 27, TASS announced the removal of the Council's Chairman, Nikolay Tikhonov, and his replacement by Gorbachev protoge Nikolay Ryzhkov.

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BY RW NARA DATE 12/22/15

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Such personnel changes mean more in the Soviet context than they would in a market economy. The Soviet economy is a centralized, command economic system in which the Politburo acts much like the board of directors of an enormous conglomerate. The Council of Ministers runs a huge government bureaucracy which sets specific output goals, determines wages and prices, allocates manpower and regulates incentives.

Personnel changes alone, however, are not likely to revitalize an economy plagued by low industrial productivity, declining efficiency of investment, rising consumer expectations, inefficient agriculture, and an outdated technological base. Gorbachev has publicly spoken of the need to "re-equip" the economy with technologically up-to-date machinery. This will require sharp increases in investments in machinery production. Gorbachev is likely to reveal further details of his economic thinking when he unveils the 12th five year economic plan at the Party Congress in February.

In financial terms, East-West trade is a relatively small factor in the Soviet economy, with the notable exception of Soviet imports of Western grain. The USSR continues to be the single largest buyer of grain from the United States. Soviet machinery imports, however, come largely from the East bloc, and in return the Soviets provide Eastern Europe with raw materials, particularly oil. The single greatest factor limiting Soviet purchases in the West remains Moscow's chronic lack of hard currency. Legal and illegal acquisition of advanced Western technology, however, is critically important to modernizing the Soviet technological base, particularly in the military area - which traditionally has absolute precedence over civilian industry.

Recommendation

OKNo

That you read the attached papers as background for your upcoming meeting with Gorbachev.

Attachments:

Tab A	Gorbachev's Domestic Agenda
Tab B	The Soviet Economy in Perspective
Tab C	USSR: The Role of Foreign Trade in the Economy

Prepared by:
Jack F. Matlock

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GORBACHEV'S DOMESTIC AGENDA

Since coming into office four months ago, Mikhail Gorbachev has made rapid progress toward what historically has been every new party chief's foremost goal--the expansion of his political power. He is also off to an excellent start on another high priority task--the reinvigoration of the party and state apparatus. Much more, however, remains to be done to realize his most difficult domestic tasks--the acceleration of Soviet economic growth and the improvement of quality and performance throughout the Soviet economy.

I. Expanding and Consolidating Power

Gorbachev has initially concentrated on expanding and consolidating his political power. To realize the full potential of his office, the General Secretary must enjoy the active support of other members of the ruling Politburo and be master of the Secretariat, the party's principal executive agent.

In April, Gorbachev engineered the promotion of three of his closest allies--Yegor Ligachev, Nikolay Ryzhkov, and KGB chief Viktor Chebrikov--to full Politburo status. In July, he ousted erstwhile rival Grigoriy Romanov from the Politburo and Secretariat and elevated Georgian party boss Eduard Shevardnadze to full Politburo membership. Shevardnadze was then quickly appointed Foreign Minister. Former Foreign Minister Andrey Gromyko was promoted to the largely ceremonial post of head of state.

After only four months in office, Gorbachev has already engineered a greater number of promotions to the Politburo than either Yuriy Andropov or Konstantin Chernenko.¹ He has also appointed as many party secretaries² as were named during Andropov's entire fifteen months in office.

¹ Under Andropov three officials--Geydar Aliyev, Mikhail Solomentsev, and Vitaliy Vorotnikov--became full Politburo members and Chebrikov was given candidate member status. There were no promotions to the Politburo during Chernenko's tenure.

² Ligachev, Ryzhkov, and Romanov became party secretaries under Andropov. There were no promotions to the Secretariat under Chernenko.

Despite this impressive display of power, there are hints that Gorbachev does not enjoy the unqualified support of all his Politburo colleagues. In a speech in Leningrad in May, for example, Gorbachev criticized the Politburo for being too timid in making a recent decision on agriculture. His criticism suggested that he had favored a bolder approach to the question. There also have been some unusual delays in the publication of major Gorbachev speeches--another possible indication of leadership disagreement. If Gorbachev's policies are indeed encountering opposition, the remaining members of the Brezhnev "old guard" are the most likely sources. Both former Premier Nikolay Tikhonov and Moscow city party boss Viktor Grishin are rumored to have opposed Gorbachev's accession to power.

II. Rebuilding Public Confidence

Rebuilding public confidence in the leadership and in officialdom is one of Gorbachev's major objectives, and he has skillfully tailored his public appearances and his media image to this end. He takes great care to orchestrate his meetings with the public, giving the appearance of knowing and caring about the life of citizens.

In addition, he has continued Andropov's anti-corruption drive and supplemented it with the anti-alcohol campaign. The uniformed police have been bolstered by a new political administration, and some 55,000 party members have been assigned to the police. While the results cannot be measured, there is evidence that Soviet officials are now far more careful about bribe-taking or other illicit activities. Accounts of arrests and massive sweeps of rural areas, however, suggest that priority has now shifted away from corruption to the anti-alcohol campaign. In any event, despite significant public approval for the struggle against drinking and corruption in principle, Gorbachev faces a long, difficult struggle before he can claim significant results in either area.

III. Revitalizing the Economy

A. Shaking Up the Party and State Apparatus

Gorbachev has also set himself the formidable task of reinvigorating the party and state apparatus through the replacement of long-tenured and complacent bureaucrats, including members of the Party's Central Committee. People on the Central Committee occupy critical posts in the party and state machinery; without their energetic support Gorbachev's domestic policy initiatives would be nothing more than paper proposals.

During the 1970s, Brezhnev's policy of cadre stability--a reaction to the frequent, often capricious personnel changes of the Khrushchev years--gave the members of the Central Committee a virtual guarantee of lifetime tenure. The resulting complacency and inertia contributed to a decline in economic growth and a rise in corruption.

Andropov launched a major campaign to replace incompetent and corrupt officials. His efforts, however, were cut short by his death. Under Chernenko, a champion of the Brezhnev old guard, personnel turnover slowed.

Gorbachev has picked up where Andropov left off. He has already replaced three heads of Central Committee departments, who play a major role in overseeing domestic policy, and appointed new party chiefs in the Georgian republic and Leningrad. The leadership of thirteen other regional party committees has also changed hands--more than during Chernenko's entire tenure.

Gorbachev has devoted particular effort to replacing poor performers among economic officials in the Council of Ministers. A deputy premier and ten ministerial-level officials have been replaced, several after humiliating public criticism. And only last week, on September 23, Tass announced that the Chairman of the Council of Ministers, Nilokay Tikhonov, had resigned -- allegedly for reasons of poor health.

Still, some of the most powerful bureaucratic posts remain in the hands of Brezhnev-era holdovers whose approach to their assignments is the antithesis of Gorbachev's activism. Nikolay Baybakov, for example, Chairman of the State Planning Committee (Gosplan) is an elderly Brezhnev-era holdover likely to oppose change in his powerful bureaucratic empire. Until he and many others like him are removed from their posts, they are likely to obstruct Gorbachev's campaign to transform the creaking state machinery into an engine for change.

B. Improving Performance

Even sweeping personnel changes, however, will not be enough to achieve the most difficult domestic goals that Gorbachev has set--the acceleration of Soviet economic growth and higher standards of quality and performance throughout the Soviet economy. Gorbachev has acknowledged that this will require a long-term effort.

The centerpiece of Gorbachev's economic strategy is a call for re-equipping Soviet factories and farms with state-of-the-art machinery--an effort that will require a major increase in investment in the machine building sector. He apparently recognizes that previous attempts to shift investment resources have been frustrated by entrenched bureaucratic interests. To avoid such problems he has indicated that a reorganization of the economic bureaucracy will be a major part of his strategy.

Gorbachev is also banking on a stepped-up labor discipline campaign to bolster economic growth while waiting for the more long-term benefits of his modernization program and his organizational changes. He is using the threat of penalties for poor performance and a pledge to increase material rewards for good performance, to encourage better labor productivity.

Gorbachev's economic strategy has much to recommend it. Increased investment in the machine building sector is long overdue and the economic apparatus is badly in need of change. The outlook for his critically important industrial modernization program, however, is problematical. Implementation would require a degree of innovation in manufacturing that historically has been lacking. In addition, there is the risk that stepped-up investment in machinery manufacturing could divert resources from consumer and defense industries to an extent the regime would find unacceptable. Moreover, the increasing inaccessibility of domestic oil, coal and iron ore could hamper prospects for achieving high growth targets.

Gorbachev's achievements in expanding his power and in at least partially reinvigorating the party and state machinery should enhance his chances of pressing through with his economic program, but will not guarantee the program's success. Like previous Soviet party chiefs, he may discover that bureaucratic obstructionism, though it may yield for a time, tends to reemerge.

Prepared by:

CIA and
Donald Graves, Department of State

~~CONFIDENTIAL~~THE SOVIET ECONOMY IN PERSPECTIVE

The Soviet economy, the second largest in the world, has grown since 1950 from about one-third to more than one-half the size of the US economy. The basic tenets of Soviet growth strategy have been:

- o a high rate of investment in heavy industry, fuels and power, and construction; a lower rate in consumer goods and agriculture;
- o emphasis on modern, capital-intensive technology in the favored sectors; use of old-fashioned, labor intensive methods in the low priority sectors;
- o large expenditures on education and science to raise the technical skills of the population;
- o acquisition of advanced Western technology and equipment in exchange for raw materials.

Making and Implementing Economic Policy

This is a "command economy". Basic economic decisions are made by central administrative fiat rather than in the market place:

- o The Politburo of the Communist Party makes the major economic decisions.
- o A huge bureaucracy -- headed by the Council of Ministers -- sets specific output goals, allocates manpower and materials, fixes wages and prices, and regulates incentives.
- o Lower down, state-owned industrial facilities and collective farms translate the economic plans into action.

The Politburo -- the highest executive arm of the Central Committee of the Communist Party -- acts much like the board of directors of an enormous conglomerate. As chairman of the board, General Secretary Gorbachev presides over weekly Politburo meetings where decisions on general economic priorities are reached. It is the Politburo that decides on the division of resources between military and civilian use and the distribution of investment between industry and agriculture.

The Council of Ministers -- the government's highest executive body -- can be likened to a senior management team

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of the conglomerate. The new Chairman of the Council, Nikolay Ryzhkov, has final responsibility for determining the output of all major commodities, distributing resources, and ensuring that plans are fulfilled. The organization under the Council includes the State Planning Committee (Gosplan), more than 50 functional economic ministries (such as ferrous metallurgy, foreign trade, and agriculture), and a host of state committees and main administrations concerned with finance, prices, supply, and the like. The State Planning Committee is now working on the Twelfth Five-Year Plan for 1986-90.

Strengths

The Soviet economy has great crude economic strength, based on a wealth of natural resources, a labor force half again as large as that of the United States, a large and growing stock of industrial facilities, and an unchallenged leadership dedicated to continual expansion of industrial and military might. Growth has been maintained by the brute force method of allocating about one-third of national output to investment and by extracting as large a work force as possible out of the populace. This growth formula has enabled the Soviets to amass an ever increasing arsenal of sophisticated weapons, to continually expand their industrial base, and to provide some increase in living standards each year.

Weaknesses

A number of persistent problems that have plagued the Soviet system for years have become particularly troublesome since the mid-1970s.

- o Low productivity and the declining efficiency of investment. Despite a growing volume of investment per worker, labor productivity in Soviet industry is only about half the US level. This is particularly serious since annual additions of men and equipment are becoming smaller, and productivity gains must be the future source of growth. An added difficulty is the gradual exhaustion of easily accessible natural resources and the rising cost of exploiting new resources, many located in remote and frozen areas of Siberia.
- o Technology gap. Although the latest technology is employed in some areas -- particularly in the defense and space industries -- technology in the civilian economy generally lags far behind that of the West. The Soviet system is particularly ineffective in moving new ideas and products from the research and development stage into full assembly-line

production. Moreover, Western equipment frequently is not as productive in a Soviet setting as it is on native ground. At the same time that the USSR is struggling to catch up, the United States, Western Europe, and Japan are forging ahead with still newer technology.

- o Rising consumer expectations. Though well-fed and clothed compared with past generations, Soviet consumers are increasingly aware of the disparity between Soviet and Western living standards. Consumer grievances are especially acute as to housing, long queues, and the poor quality of durables and other consumer goods and services.
- o Inefficient agriculture. Nearly one-fifth of the labor force is still employed on the farm; equipment is badly operated and maintained; and the cost of producing grain and meat is far above world market prices.

Most of these problems are rooted in the Soviet system of planning and management, which is too centralized and clumsy for effectively managing the increasingly complex economy. Central planning, for example, becomes more difficult as the number of links between producers, consumers, and suppliers multiplies.

The Soviet incentive system is especially ill-equipped to deal with today's problems. Although it was effective in maximizing physical output in the 1950s and 1960s when resources and raw materials were cheap and readily available, in recent years it has led to industrial bottlenecks, encouraged waste and mismanagement of resources, contributed to irrational investment decisions, retarded scientific technological innovation, and stimulated widespread corruption and illegal economic activity.

As a result of these weaknesses, Mikhail Gorbachev inherited a decade-old economic slowdown punctuated by harvest failures, industrial bottlenecks, labor and energy shortages, low productivity, and declining efficiency of investment. Part of the problem has been the result of external factors:

- o Harsh weather conditions that have depressed farm output.
- o Declining increments to the working age population that have led to labor shortages.
- o Rising costs and increasing difficulty of extracting and transporting energy resources and other raw materials, which have

exacerbated the squeeze on labor and capital resources and intensified the impact of bottlenecks already present in key sectors of the economy.

But the key source of the USSR's economic slowdown -- as Gorbachev himself has implied -- is systemic: existing methods of planning and management are more and more incapable of coping with a modern economy.

Economic Prospects Under Gorbachev

Since coming to power in March 1985, Gorbachev has moved forcefully to place his personal stamp on economic policy, telling managers that they must change the way they do business or "get out of the way". His frankness illustrates the strong emphasis he is placing on the need for competent personnel and for tougher standards of performance evaluation. He seems to have a clear understanding of the economy's problems and is determined to deal with them. Gorbachev has described the acceleration of economic growth as his major domestic goal and laid out a growth strategy that includes increasing the pace of scientific and technological progress, restructuring investment, reorganizing management and planning, and tightening economic discipline.

The key element in implementing this policy is to be the "re-equipping" of the economy with high-quality, technologically up-to-date machinery. This, he says, will require sharp increases in machinery production and a larger share of investment in machinery producing facilities. The other significant known components of his plans for dealing with the economy are essentially continuations of policies introduced in recent years, but not effectively implemented. These include vigorous application of Andropov's discipline campaign which waned under Chernenko, linking wages more closely to productivity, implementing Brezhnev's 1982 Food Program of which he was primary architect, providing more operational autonomy for enterprise managers, and sharply curtailing the powers of the ministries.

Gorbachev has indicated that a reorganization of the economic bureaucracy will be a major part of his strategy. In a June speech he suggested that plans for such a reorganization have now reached an advanced stage and that they include the creation of superministerial bodies, starting with agro-industrial and machine-building sectors. His speeches also suggest that these super-ministries will be restricted to "strategic" planning and leave operational control of enterprises in the hands of the managers on the scene.

Gorbachev's program could result in improved economic performance if vigorously pushed. Priority development of the food industry, for instance, coupled with greater attention to transportation and storage facilities, could considerably reduce the present enormous waste and spoilage

of agricultural produce. Moreover, the discipline campaign, which was evidently a significant factor in the economic upswing during Andropov's tenure, could again have a favorable impact on economic performance. Gorbachev is gambling that an attack on corruption and inefficiency, not radical reform, will turn the economy around. Although his approach is risky -- previous attempts to redirect investment resources and other economic initiatives generally have been frustrated by entrenched bureaucratic interests--his prospects for success should not be underestimated.

How much economic improvement occurs and how long it lasts will depend largely on whether Gorbachev can deal successfully with problems inherent in the economic system itself. He has not, for example, squarely addressed such problems as the arbitrary nature of Soviet prices, which prevent planners from making economically rational decisions, or the lack of sufficient consumer input into decisions on what to produce. Nor has he explained how, in a period of likely resource stringency, with investment to grow at an accelerated rate and defense likely to have a strong claim on resources, the consumer's needs can also be addressed.

There have been hints, however, in Gorbachev's past and recent speeches, and in the statements of some knowledgeable Soviet officials, that the General Secretary may eventually tackle some of these problems. In his Lenin Day Address in April 1983, for example, Gorbachev stressed the importance of greater reliance on prices as an economic lever. He returned to this theme in his June 1985 address to the Science and Technology conference, calling for a more decisive shift from administration to economic methods of regulating the economy. In the same address he also called for an end to "the domination of the consumer by the producer".

Gorbachev may well have decided to refrain from translating such vague expressions of support for controversial measures into specific proposals until he has fully formulated his plans and/or consolidated his political strength. A Soviet political commentator privately characterized Gorbachev's current approach as one of first adopting uncontroversial economic measures while simultaneously working on a long-range and more far-reaching program. Alternatively, Gorbachev may have refrained from bolder measures because he hopes that the steps he has already proposed will be sufficient to remedy the economy's ills. Indeed, he has made clear that he remains committed to the basic system of central planning. In either event, the

political momentum he already enjoys augurs well for his future ability to take bolder steps, and the ambitious nature of the goals he has set increases the chances that he will have to do so. Nevertheless, he is likely to find that real improvements will be short-lived and limited so long as the system is kept intact.

Drafted by:
F. Douglas Whitehouse, CIA
Martin J. Kohn, CIA

~~SECRET~~USSR: THE ROLE OF FOREIGN TRADE IN THE ECONOMY

Foreign trade plays an important, albeit not critical, role in Soviet economic development. Although the Soviet economy is largely self-sufficient--purchases from abroad account for only about 10 percent of GNP--imports have helped Moscow improve consumption, boost productivity, remove industrial bottlenecks, and modernize weapon systems.

East-Versus West as a Source of Imports

The USSR has traditionally favored its Communist allies in its foreign trade.

- o About 65 percent of the USSR's machinery and equipment imports come from its Communist allies, mostly the East European countries.
- o These imports represent nearly half of all Soviet purchases from Communist countries. (See Figure 1)

Although East European machinery and equipment is often of lower quality than Western equipment, it is equal to or better than Soviet produced goods in many instances. The USSR also looks to Communist countries for manufactured consumer goods to supplement its own production. More than half of such imports -- primarily clothing and furniture-- are purchased in Eastern Europe.

While relying on Eastern Europe for much of its machinery and equipment needs, imports of Western technology and equipment have been essential to expand selected Soviet industries (e.g. chemicals and automobiles), despite difficulties in assimilation.

- o Imported chemical equipment in the 1970s was largely responsible for a doubling in the output of ammonia, nitrogen fertilizer, and plastics during this period.
- o Construction of the Kama river truck plant, which is based almost exclusively on Western equipment and technology, has resulted in a roughly 100 percent increase in Soviet heavy truck output over the past decade.

Imports from the West also have played a key role in supporting the energy sector.

- o The rapid construction of the Siberia-to-Western Europe gas pipeline would not have been possible without purchases of Western turbines, compressors and pipe.

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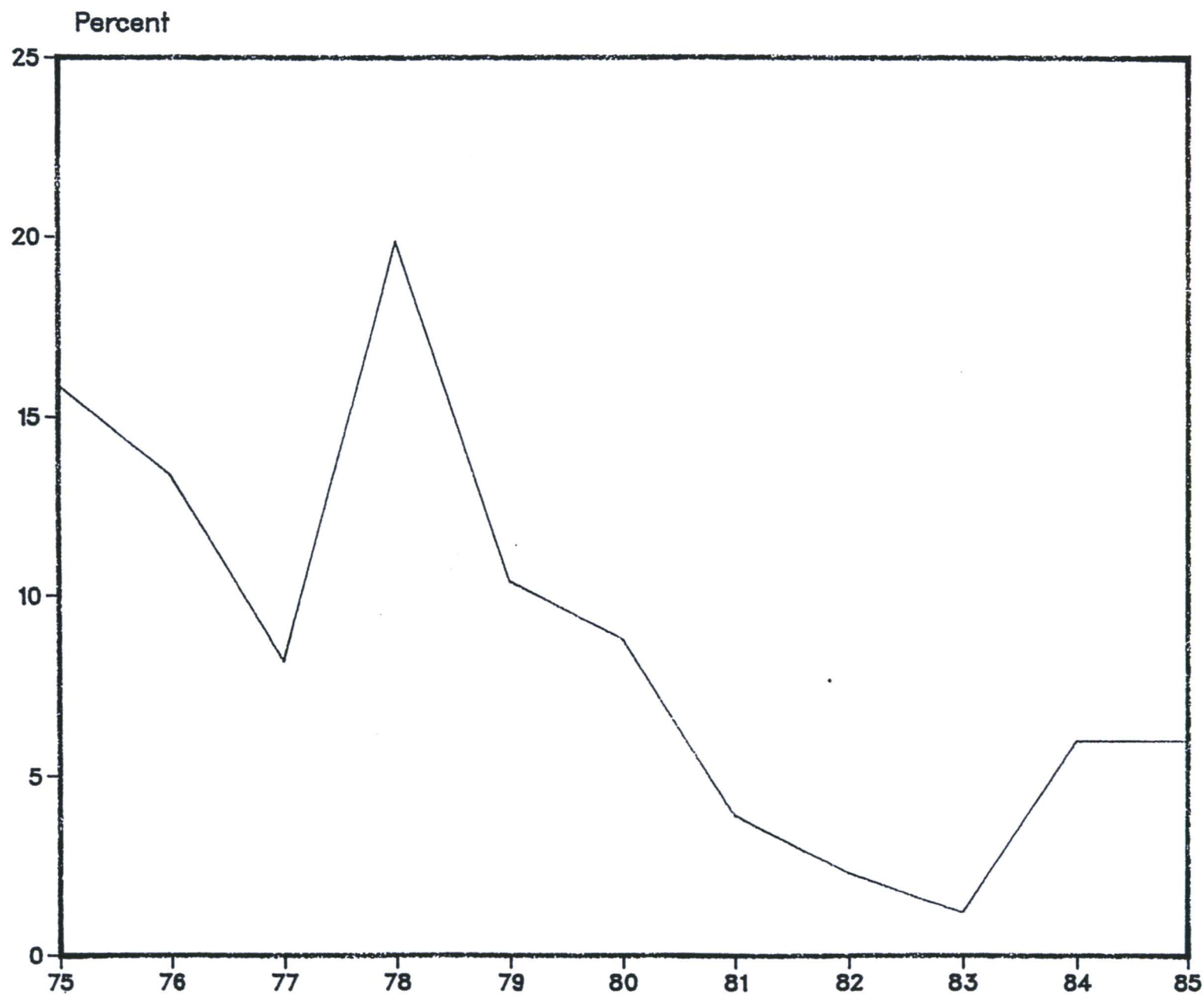
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BY KML NARA DATE 12/27/12

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US Share of Soviet Equipment Orders, 1975-85



The value for 1985 is based on first half data.

- o Deficiencies in Soviet drilling, pumping, and exploration have prompted Moscow to purchase almost \$20 billion in oil and gas equipment since 1975.

Imports of grain and other agricultural products have been the largest component of the USSR's western trade. A series of mediocre harvests during 1981-84 has pushed agricultural imports to record levels -- with average annual purchases of some \$10 billion during this period. Because of the limited ability of Communist countries to expand grain production, Moscow has had to rely almost entirely on Western countries to fill the gap between domestic output and requirements.

Finally, in addition to contributing to specific industrial sectors and overall consumer well-being, acquisition of gas and technology from the West has enhanced Soviet military programs.

- o Access to specific technologies has permitted improvements in a number of weapon and military support systems.
- o Gains from trade, in general, have improved the efficiency of the economy and thereby reduced the burden of defense.

Composition of Soviet Exports

In contrast to its imports, Soviet exports are composed mostly of raw materials, particularly energy. This concentration of trade has become particularly prominent since the mid-1970s as a result of rapidly rising fuel prices. By 1983, 70 percent of total Soviet exports to non-Communist countries and 50 percent of exports to Communist countries consisted of fuel shipments. (See Figure 2). Although arms exports to non-Communist countries are not specified in Soviet trade statistics, we estimate that this trade accounted for some 15 percent of total Soviet exports in 1983. Only 5 percent of Soviet exports are agricultural goods.

Soviet Trade With the Third World

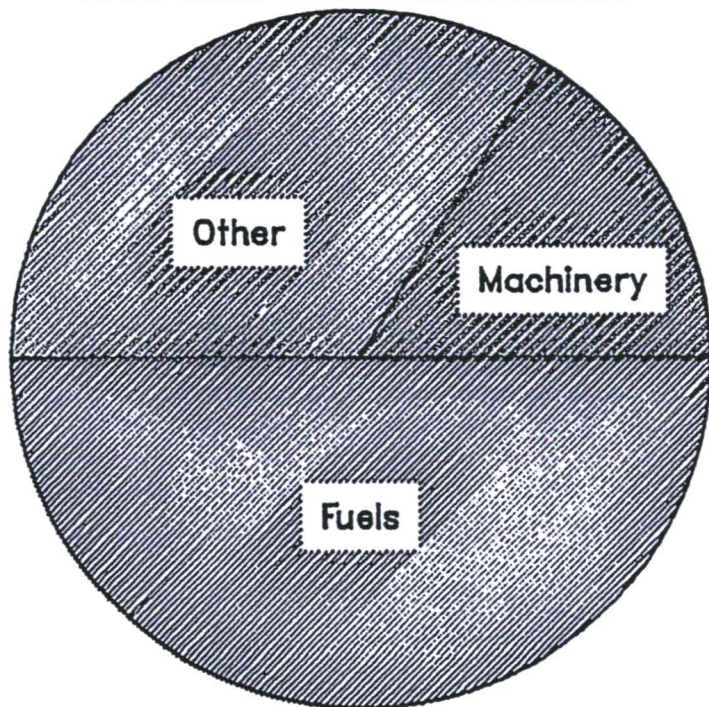
Unlike Soviet trade with the developed West, which is essentially an exchange of Soviet industrial raw materials for technology and agricultural products, Soviet-LDC trade consists of an exchange of Soviet manufactures--mainly military supplies--for industrial and agricultural raw materials. The LDCs represent Moscow's only major outlet outside the Bloc for exports of civilian and military manufactures.

Soviet military exports are the largest and most dynamic element in LDC trade. Such exports totaled over \$9 billion in 1982 and 1983, an amount equal to almost 70 percent of

Soviet Exports by Commodity, 1983

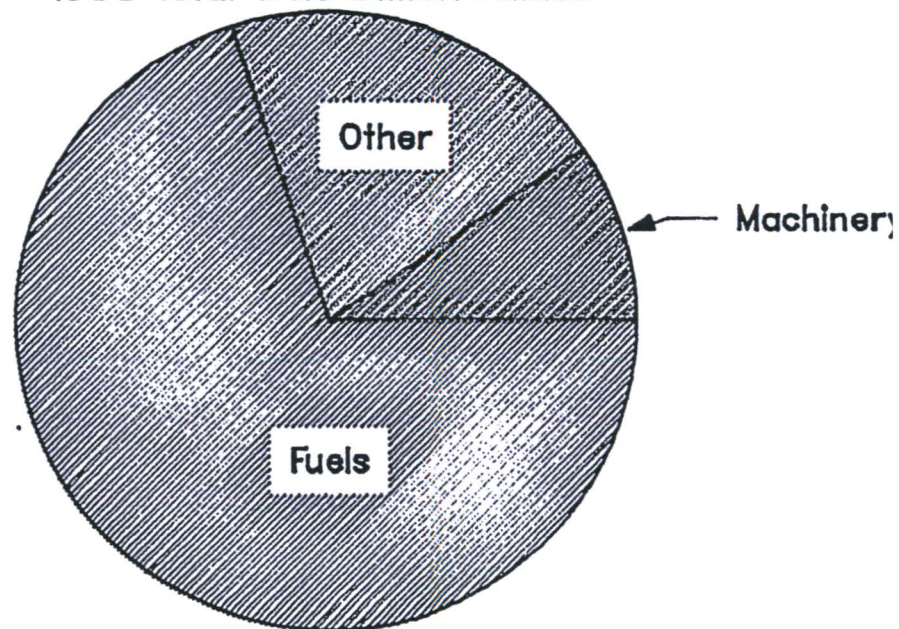
Communist Countries

1983 Total=37.8 Billion Rubles



Non-Communist Countries

1983 Total=24.9 Billion Rubles



Other Includes ferrous metals, agricultural products, consumer goods and military trade.

total Soviet exports to the LDCs. The military sales program offers Moscow substantial benefits:

- o It is a major tool for establishing Soviet presence and expanding influence in LDCs.
- o It provides Moscow with one of the few export opportunities in which Soviet-manufactured goods are somewhat competitive in price and quality with Western products.
- o After credits and payments reschedulings are netted out, it generates perhaps \$5-6 billion per year in hard currency revenues or their equivalent.

US-Soviet Trade

With the exception of agricultural imports, Soviet trade with the US has been relatively small. The US did participate in the expansion in commercial relations that accompanied East-West detente in the 1970s.

- o US exports to the USSR totaled only \$100 million in 1970, or less than 5 percent of Soviet hard currency imports.
- o By 1979, US sales totaled \$3.8 billion, nearly 20 percent of hard currency purchases. (See Figure 3)

Following the sanctions imposed in the wake of Soviet intervention in Afghanistan and imposition of martial law in Poland, US-Soviet trade dwindled. US machinery and equipment sales suffered the most, plunging from a peak share of 20 percent of Soviet orders in 1978 to only one percent in 1983. Despite the partial grain embargo from January 1980 to April 1981, US-Soviet agricultural trade did not decline nearly as much. Although the Soviets have increasingly diversified their sources of grain supplies, the US, as the largest and most stable exporter of grain, remains an important source for Moscow.

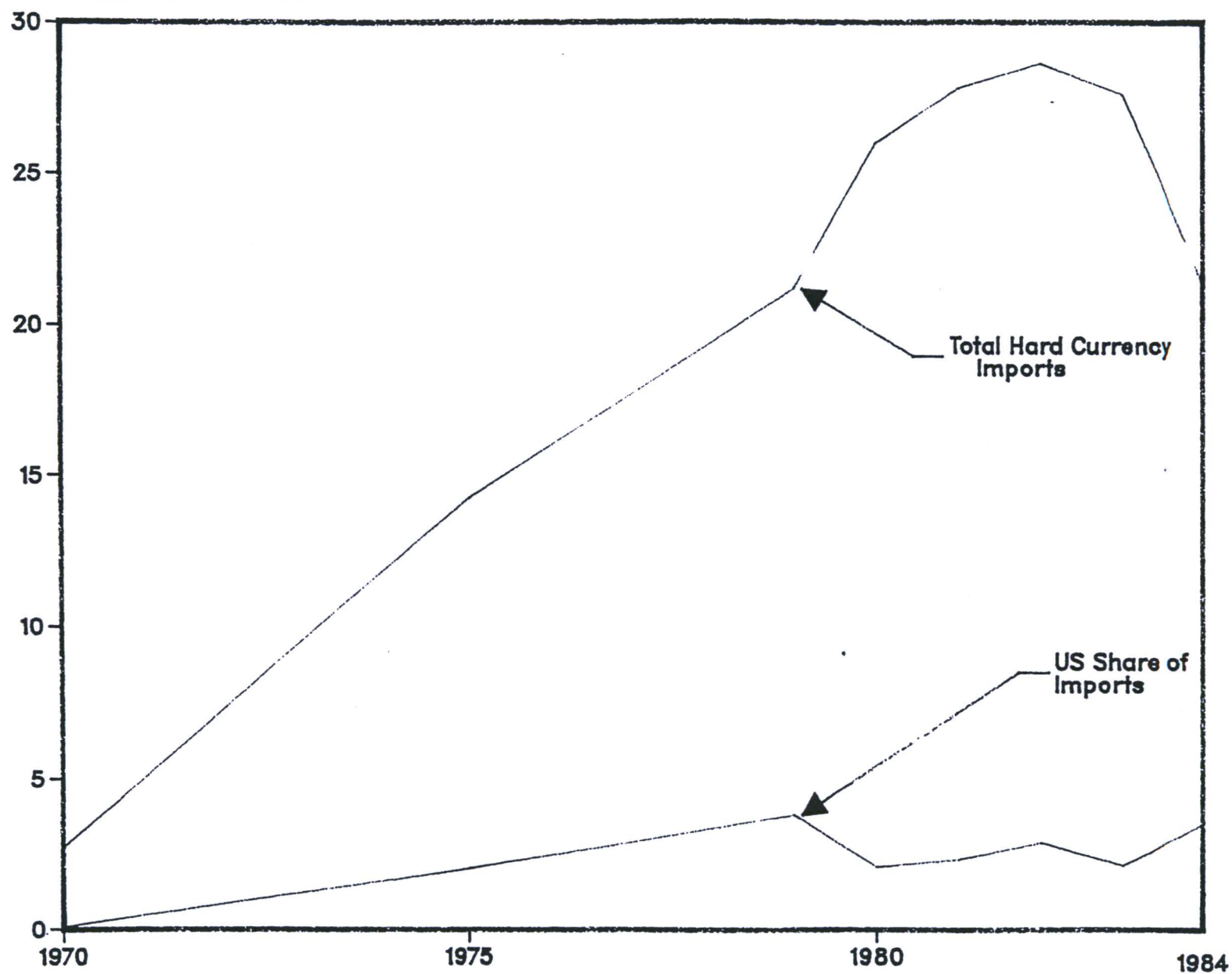
- o The USSR continues to be the single largest buyer of grain from the US.
- o During the 1984-85 market year, Soviet purchases of grain reached a record 22.7 million metric tons.

Foreign Trade Under Gorbachev

Since taking over as General Secretary in March, Gorbachev has made it clear that improved economic performance is his top priority. His plan focuses on modernizing the industrial base with more and better machinery--a

USSR: Imports from the United States, 1970-84

Billion Current US Dollars



strategy which could lead to an increased role in both Eastern Europe and the West.

Gorbachev is undoubtedly hoping for an increase in the flow of machinery from Eastern Europe and has spoken about the need for broader and tighter intergration within CEMA. While such rhetoric is not new--the USSR has long advocated joint production and specialization within CEMA as a means of getting the East Europeans to cough-up more--Moscow seems more intent than ever on pressing its allies to make firm commitments on this issue. In this regard,

- o An agreement signed by CEMA Prime Ministers in June pledged multilateral cooperation in designing and producing computer controlled systems.
- o The agreement follows a recent call in Pravda for a 50-100 percent increase in the rate of growth in machine-building in CEMA countries during 1986-90.

Moscow is probably limited in just how much it can get from its allies. Because most East European countries are constrained by their own resource and economic difficulties, any sharp increase in machinery exports to the USSR would have to come at the expense of much needed domestic investment or sales to the West that bring in hard currency. Such a shift would risk undermining growth prospects throughout the area which could cause serious political problems.

The limited prospects for sharply boosting imports from Eastern Europe increases Moscow's incentive to trade with the West. In particular, Gorbachev probably will look to the West for imports of technology and equipment for selected sectors--energy and electronics, for example -- where no good supply alternatives exist. Moreover, Moscow is presently in a good financial position to increase its purchases of Western machinery and equipment -- at least in the near-term.

- o With a relatively small debt and approximately \$10 billion in assets in Western banks at year-end 1984, Moscow can easily obtain commercial credits to finance new purchases.
- o Most West European countries are also offering generous terms on government-backed credits in an effort to balance trade with the Soviets and spur their own economies.

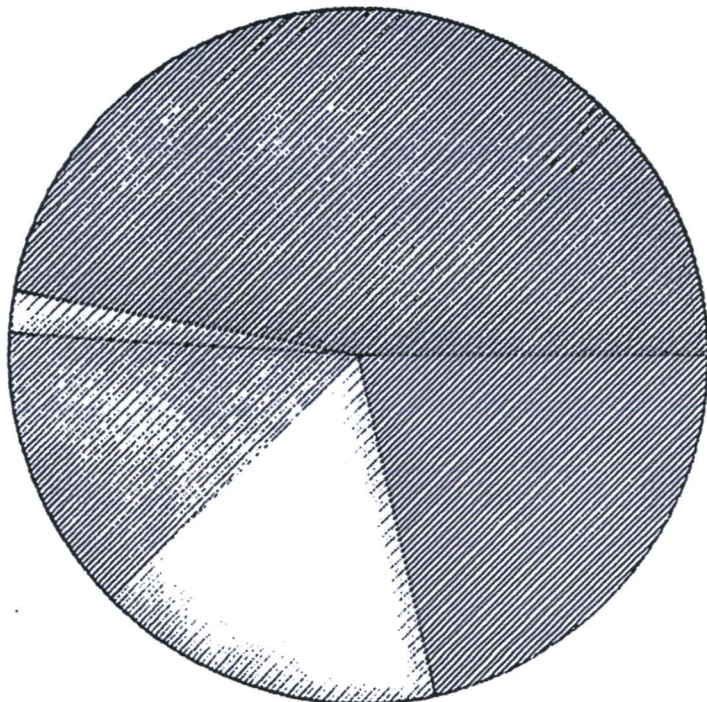
Over the longer term, however, Moscow's financial position is much less certain -- falling world prices for oil and declining domestic production could limit Soviet hard currency earning capacity.

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Soviet Imports by Commodity, 1983

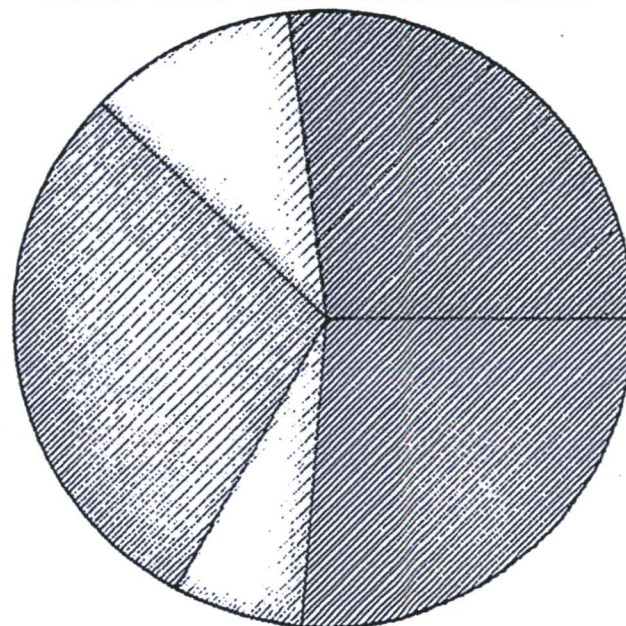
Communist Countries

1983 Total=33.7 Billion Rubles



Non-Communist Countries

1983 Total=25.7 Billion Rubles



- Machinery
- Ferrous Metals
- Agricultural
- Consumer Goods
- Other

Looking to the US

Prospects for an expansion of Soviet purchases of US machinery and equipment appear good -- albeit from the extremely low levels of recent years. The share of machinery and equipment orders going to the US during first quarter 1985 -- 10 percent -- is substantially above last year's 6 percent figure and, if maintained, would be the highest since 1979 (See Figure 4). Moreover, the US-Soviet Joint Commercial Commission talks in May 1985 produced a Soviet pledge to:

- o Try to do more business with US firms.
- o Put interested US firms on bidders' lists.
- o Fully consider US proposals on their economic merit.

In this regard, we have seen an improved tenor in US-Soviet contract negotiations since the beginning of the year. The Soviets are currently discussing major deals with US firms for the sale of personal computers, energy equipment, and agricultural technology. Although these negotiations may be protracted, some signings appear likely.

Nevertheless, the vast majority of Soviet purchases from the US will continue to be agricultural products. Under the current long-term US-Soviet grain agreement (which expires in 1988), Moscow is committed to purchase a minimum of 8-9 million tons of grain per year, with a value of roughly \$1 billion at current world prices. In poor crop years, Soviet purchases can be expected to be much larger.

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Prepared by:

CIA

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NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

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MEMORANDUM FOR MR. NICHOLAS PLATT
Executive Secretary
Department of State

SUBJECT: Background Papers for the President's Meeting with
Gorbachev

Attached for Secretary Shultz is a copy of the latest group of background papers for the President on the Soviet Union. It deals with Gorbachev's domestic agenda, particularly the economic challenges he faces.

William F. Martin
Executive Secretary

Attachments

Tab A Gorbachev's Domestic Agenda
Tab B The Soviet Economy in Perspective
Tab C USSR: The Role of Foreign Trade in the Economy

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White House Guidelines, August 28, 1997
By smf NARA, Date 6/7/02

NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

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MEMORANDUM FOR MR. DAVID L. CHEW

SUBJECT: Background Papers for the President's Meeting with
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Attached for Mr. Regan is a copy of the latest group of background papers for the President on the Soviet Union. It deals with Gorbachev's domestic agenda, particularly the economic challenges he faces.

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