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USSR--ECONOMY 6/10

FOIA

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ID. Doe Tune	Desi	Imant Deceriatio	n	No of	Doc Date	Restrictions
ID Doc Type	Doct	ıment Descriptio	n	Pages	Doc Date	Restrictions
9677 PAPER	USSR	ANDROPOV-CHE	YSSON MEETING;	1	2/24/1983	B1
	ANDR	OPOV CALLS FO	R ECONOMIC			
	IMPRO	OVEMENTS; SOV	IET SHUTTS			
	PAR	3/16/2015	M375/1			
9674 PAPER	USSR:	ECONOMIC PER	FORMANCE IN 1982	5	3/16/1983	B1
	PAR	1/20/2016	M554/1			
9678 MEMO	SOVIE	ET TRENDS: FEBR	UARY 1983	1	3/22/1983	B1
	R	7/7/2008	NLRRF06-114/7			
9686 CABLE	241348	8Z MAR 83		5	3/24/1983	B1
	R	7/7/2008	NLRRF06-114/7			
9687 PAPER	SIBER		NE FOR THE SOVIET	6	4/15/1983	В6
	R	11/24/2009	F06-114/7			
9679 CABLE	151503	3Z APR 83		1	4/15/1983	B1
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9681 MEMO			NOMIC DIRECTORATE	3	ND	B1
	D	7/7/2008	NLRRF06-114/7			

Freedom of Information Act - [5 U.S.C. 552(b)]

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9675 PAPER	USSR:	ECONOMIC PEI	RFORMANCE	3	6/28/1983	В3	
	PAR	12/27/2012	M554/1; PAR UP F06-114/7	HELD 5/	7/2013		
9682 PAPER	USSR: FADE	ECONOMIC GA	INS BEGINNING TO	1	6/29/1982	B1	
	R	7/7/2008	NLRRF06-114/7				
9683 PAPER	SAME	TEXT AS DOC #	9682	1	6/29/1982	B1	
	R	7/7/2008	NLRRF06-114/7				
9684 PAPER		ECONOMIC PRI NSE SECTOR	ORITIES AND THE	3	6/30/1983	B1	В3
	D	12/27/2012	M554/1; D UPHE F06-114/7	LD 5/7/	2013		
9676 PAPER	USSR:	THE ECONOMY	AT MID-YEAR	1	8/15/1983	B1	
9685 CABLE	161556	Z AUG 83		3	8/16/1983	B1	
	R	7/7/2008	NLRRF06-114/7				

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EXECUTIVE SECRETARIAT BUREAU OF INTELLIGENCE AND RESEARCH

SOV!

CURRENT REPORTS

February 24, 1983

NLRR M375/1 #9677

BY LW NARA DATE 3/16/15

1. USSR

A. Andropov-Cheysson Meeting

Andropov's February 21 meeting with French Foreign Minister Cheysson was devoted primarily to reiterating their sharp disagreement on INF modernization. Embassy Moscow reports that, according to the French Ambassador in Moscow, Andropov said that bilateral relations have "sharply worsened" since Mitterrand came to power, and characterized the French position on INF as a fundamental problem. Andropov also made clear that if NATO INF modernization plans proceed, the USSR would be forced to deploy "equal numbers" of new missiles. Cheysson emphasized French nuclear independence, but asserted that France cannot be "disinterested" in its neighbors because its fate is bound to that of other countries within range of Soviet weapons. The French Ambassador also said the question of a summit between Andropov and Mitterrand did not arise: Cheysson had no invitation to offer, and no authority to consider a Soviet invitation had one been offered. (SECRET/EXDIS)

B. Andropov Calls for Economic Improvements

Andropov, writing in the party journal Kommunist, has called for improvements in the organization and management of the Soviet economy, and for more discipline and productivity in the labor force. Embassy Moscow reports Andropov's major theme is that wages and consumption must be linked to output. He acknowledged that Soviet demographics no longer permit the economy to rely on brute labor to increase output, and criticized past failures to increase mechanization. Andropov also directly blamed the past four years of agricultural disaster on failure to reorganize the economy.

Embassy Comment: Andropov's remarks will probably be interpreted as implied criticism of Brezhnev's lax administration, and as a harbinger of changes to come. However, Soviet readers will look in vain in this article for clear guidance on the direction they should now pursue. (CONFIDENTIAL)

(See Item 3. Analysis, for further information.)

C. Soviet Shuttle

E. O. 12958 As Americad Sec. 3.3 b (1)

INR Comment: While the Soviet shuttle is somewhat smaller than ours, its external configuration is virtually identical. The orbital flight test program for the vehicle is not expected to begin until 1986 or 1987, when the launch facilities for the shuttle will be complete. (SECRET/NOFORM)

Top Secret	50V·	1
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	EO 13526 3.5(C)
Special Analysis	
USSR: Economic Performance i	n 1982
Economic growth in the USS percent, and consumer welfare st output improved after a three-year industrial growth bodes ill for the	ar decline, the continued slide in
Industrial development again labor productivity, transportation materials and electricity took the growth sectors—machinery, met chemicals—all did poorly compared	als, construction materials, and
has sought increased labor discipleadership has indicated there wi	
Energy and Agriculture	i y
economic performance. Much of	least stable element of Soviet Andropov's short-term success or a whole will rest on what happens in
despite a fourth consecutive poor mainly the result of record fruit as	
stimulating farm output, partly by machinery, fertilizer, and other pr	a comprehensive program aimed at emphasizing larger flows of coducer goods to farms. There has over in the delivery of these goods

DECLASSIFIED IN PART NLRR 1554 # 9674

BY RW NARA DATE 1/20/16

continued

16 March 1983

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The Consumer

Consumer welfare stagnated. Per capita retail trade barely grew, reflecting the slow growth in the availability of consumer goods

There was almost no increase in per capita food consumption. Per capita meat consumption fell slightly for the second year despite large-scale imports. For the first time since World War II. per capita sales of consumer durables actually declined.

Hard Currency Payments Position

The Soviets did have considerable success in curbing growth in their hard currency debt. Although the USSR's debt service ratio is less than 20 percent, conservative Soviet economic planners will continue to be wary of increasing the foreign debt.

Success in this area was achieved at substantial cost. The USSR increased its hard currency exports of goods, especially oil, needed for domestic use and for sale to its allies and reduced its imports of machinery, industrial materials, and other Western goods essential for economic growth. The Soviets will find it increasingly difficult, however, to sustain favorable trade trends, particularly if oil prices continue to be soft.

Prospects

Andropov's "disciplinary campaign" may succeed over the short run in increasing industrial output faster than in recent years. This, together with average-to-good weather, could result in greater GNP growth in 1983. The outlook for 1984 and beyond, however, will remain clouded by continued shortages of industrial materials, by transportation problems, and by smaller additions to the labor force.

Top Secret

Top Secret

USSR: Indicators of Economic Growth

Transportation
Construction

Labor Productivity in Industry

Top Secret

Top Secret

USSR: Hard Currency Debt to the West	i		Billion US 3 yearend
and the second s	1980	1981	1982 *
Gross debt	17.9	20.0	20.3
Commercial debt	10.0	12.1	11.6
Government and government-	7.9	7.9	8.7
Assets in Western banks	8.6	8.4	8.4
Net debt	9.3	11.6	11.9

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16 March 1983

USSR: Calls for Economic Reforms

A recent article in *Pravda* by a senior economist who is rumored to be a protege of General Secretary Andropov suggests the USSR should adopt some of the reforms that have been successful in other "socialist" countries. It argues for greater managerial independence in both industry and agriculture. The article follows other recent critical analyses by high-level economic managers. Last fall Andropov reportedly tasked economic leaders to devise specific solutions to existing problems.

Comment: The leadership has given the media unusual freedom to criticize economic mismanagement and to discuss corrective measures, and the coverage is becoming more frequent. The public airing of such views may be intended to encourage discussion before a Central Committee plenum, possibly to be held this spring. Almost all of the articles, however, seem to rule out radical shifts from a centrally planned economy.

THAILAND: Constitutional Amendments Defeated

Parliament voted yesterday to reject constitutional amendments intended to preserve military control over the legislature. As a result, pending provisions of the constitution of 1979 will come into effect on 21 April, ending important voting powers of the military-dominated, appointed Senate. Military officers on active duty will not be permitted to hold cabinet posts. The national elections next June will be held under rules favoring large civilian political parties.

Comment: The rejection is a major setback for Army Commander in Chief General Athit, who was the driving force behind the amendments. If the results of the vote are allowed to stand, the role of the elected representatives in government will greatly increase—a situation the military has never tolerated for long. Before the vote, Athit used thinly veiled coup threats to try to ensure passage of the amendments. Athit would need at least passive acquiescence from the monarchy to stage a successful coup, however, and there is no reliable information on its position.

Top Secret

Dobiansky

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REAGAN-SOVIETS

LOS ANGELES (AP) -- PRESIDENT REAGAN IS TRYING TO FORCE INTERNAL SOVIET CHANGES WITH A FORMAL, TOP-SECRET POLICY OF ECONOMIC AND SOCIAL PRESSURE, THE LOS ANGELES TIMES SAID TODAY.

HOWEVER, THE NEWSPAPER SAID SECRETARY OF STATE GEORGE SHULTZ MAY
BE OPPOSED TO THE POLICY, SUGGESTING SHULTZ HAS CONSISTENTLY OPPOSED
USE OF TRADE SANCTIONS AS A "CARROT AND STICK," BECAUSE IT IS
DISRUPTIVE TO FOREIGN RELATIONS.

NATIONAL SECURITY DECISION DIRECTIVE 75 IS MEANT TO FORCE A SOVIET SHIFT AWAY FROM A MILITARY BUILDUP AND RECENT WORLD AGGRESSION BY MAKING SOVIET RULERS MORE RESPONSIVE TO THE NEEDS OF CONSUMERS AND CIVILIANS, THE PAPER SAID.

BESIDES ECONOMIC SANCTIONS, THE DIRECTIVE CALLS FOR PROMOTING U.S. POLICIES AND DEMOCRATIC PRINCIPLES TO NON-DEMOCRATIC NATIONS THAT MIGHT BE INFLUENCED BY SOVIET POLICIES AND EXPANSIONISM, INCLUDING LATIN AMERICA, WESTERN EUROPE AND THE SOVIET UNION ITSELF, THE NEWSPAPER SAID.

THE ARTICLE WAS WRITTEN BY FORMER MOSCOW CORRESPONDENT ROBERT.

TOTH, NOW BASED IN WASHINGTON. TOTH WAS EXPELLED FROM THE SOVIET

UNION IN 1977 AFTER HE WAS ACCUSED BY THE SOVIETS OF BEING DIRECTED

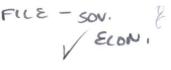
BY U.S. SPIES, A CHARGE HE DENIED.

THE DIRECTIVE REMAINS TOP SECRET, BUT ITS PRINCIPAL AUTHOR, HARVARD HISTORY PROFESSOR RICHARD PIPES, DISCUSSED HIS VIEWS ON THE SOVIET UNION WITHOUT COMMENTING ON THE DIRECTIVE ITSELF, THE NEWSPAPER SAID.

"'THE SOULETS HAVE CLEARLY BEEN SHIFTING RESOURCES TO THE MILITARY, WHICH IS NOT IN OUR INTEREST," PIPES SAID. "THEY MIGHT STOP DOING SO IF THEIR CONSUMER AND CAPITAL INVESTMENT SECTORS LOOK DANGEROUSLY UNDERFED, WHICH MIGHT OCCUR IF THE WEST STOPS GIVING THEM CHEAP CREDITS AND HIGH TECHNOLOGY."

PIPES, UNTIL RECENTLY A MEMBER OF THE NATIONAL SECURITY COUNCIL, STAFF, SAID REAGAN ''UNDERSTANDS VERY WELL'' HIS VIEWS, WHICH THE NEWSPAPER SAID WERE MODIFIED IN THE DIRECTIVE SOMEWHAT BY THE STATE DEPARTMENT.

AP-WX-03-16-83 1226EST





BUREAU OF INTELLIGENCE AND RESEARCH

(LOU) SUMMARY OF INR PRODUCTION FOR MARCH 22, 1983

(C) Soviet Trends: February 1983: In a Kommunist article Andropov emerged as a party theorist showing some readiness for a degree of economic reform but hostility toward political liberalism. Gorbachev seems to be expanding his influence and is campaigning for fewer fetters on farm workers and technicians. Pravda's review of the final chapters of Brezhnev's memoirs ignored his sketches of some current Politburo leaders. Georgia is getting much publicity for a scheme to produce more consumer goods, and the central press is now touting farm horses as an answer to the lack of paved rural roads. Moscow suddenly raised retail prices for many consumer items, and likely will gradually raise prices in the future to sop up popular purchasing power. The Andropov regime warned the cultural elite that Western concepts were unacceptable and that socialist realism was again regarded as the appropriate model. (Report 578-CA, CONFIDENTIAL, Decl. OADR)

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LIMITED OFFICIAL USE SECTION Ø1 OF Ø5 MOSCOW Ø3512 USDOC FOR IFP/FUR/USSR PARIS ALSO FOR USOECD E.O. 12356: N/A TAGS: ETRD, UR SUBJECT: 1982 SOVIET FOREIGN TRADE: SOVIET STATISTICS

1.-(LOU) SUMMARY. THE USSR EARNED AN IMPRESSIVE FOREIGN TRADE SURPLUS IN 1982, ITS LARGEST TO DATE, OF WHICH OVER 3 BILLION RUBLES (DOLS 4.2 BILLION) WAS WITH LESS-DEVELOPED COUNTRIES. IN THE FACE OF SOFTENING RESOURCE DEMAND WHICH WEAKENED PRICES. THE USSR AGGRESSIVELY MARKETED OIL IN THE WEST. IT ALSO TRIMMED AGRICULTURAL IMPORTS, SELEC-TIVELY IMPORTED WESTERN EQUIPMENT, CUT BACK AID TO POLAND, AND ROUGHLY MAINTAINED ITS VOLUME OF EXPORTS TO CMEA COUNTRIES. SOVIET TWO-WAY TRADE DECLINES RANGED FROM SHARP (ARGENTINA AND TURKEY) THROUGH MODERATE (FRANCE, AUSTRIA, ROMANIA, IRAN) TO MINIMAL (AUSTRALIA, SYRIA AND CANADA). YET THE USSR REMAINS SENSITIVE TO WESTERN EFFORTS TO MANAGE EAST-WEST TRADE. END SUMMARY.

2. (LOU) V. KLOCHEK (CHIEF OF THE PLANNING-ECONOMIC ADMINISTRATION OF MINISTRY OF FOREIGN TRADE) REPORTS IN THE MARCH 23RD EKONOMICHESKAYA GAZETA (NO. 13) THAT SOVIET FOREIGN TRADE WORLDWIDE GREW 9 PERCENT IN 1982, A SLOWER TEMPO THAN 1980 OR 1981. SOVIET EXPORTS OF 63.2 BILLION

RUBLES EXCEEDED SOVIET IMPORTS BY 6.8 BILLION RUBLES. THE RUBLES AVERAGE OFFICIAL EXCHANGE RATE IN 1982 WAS DOLS 1.387. IN ADDITION TO HIS COMMENTARY, HE REPORTS FOR THE FIRST TIME FULL-YEAR 1982 SOVIET FOREIGN TRADE STATISTICS: EXPORTS AND IMPORTS BY MAJOR COUNTRY GROUPS, AND TWO-WAY TURNOVER FOR INDIVIDUAL COUNTRIES (SEE TABLES BELOW) .

3. (LOU) SOCIALIST COUNTRIES, PARTICULARLY THE EAST EUROPEAN MEMBERS OF CMEA, REMAINED THE USSR'S LARGEST TRADING GROUP. HOWEVER, THE USSR REDUCED THE SIZE OF ITS TRADE SURPLUS WITH CMEA COUNTRIES TO 3.7 BILLION RUBLES, LARGELY BY REDUCING THE SOVIET SURPLUS WITH POLAND. WE THINK THE 9 PERCENT INCREASE IN SOVIET EXPORTS TO CMEA IN 1982 CAN LARGELY BE EXPLAINED BY OUR ESTIMATE OF A 27 PER-CENT INCREASE IN THE PRICE OF SOVIET OIL FOR CMEA CUSTOMERS IN 1982. (SOVIET OIL ACCOUNTED FOR NEARLY ONE-THIRD OF SOVIET EXPORTS TO EASTERN EUROPE IN VALUE TERMS IN 1981.) SELECTIVE CUTBACKS IN 1982 SOVIET OIL DELIVERIES TO EASTERN EUROPE HAVE BEEN NOTED EARLIER. IN CONTRAST. SOVIET IMPORTS FROM THE CMEA AREA ROSE 16.5 PERCENT, NEARLY DOUBLE THE GROWTH RATE IN 1980-81.

- 4. 11-007 AMONG CMEA COUNTRIES, THE GDR AND CZECHOSLOVAKIA REMAINED THE USSR'S LARGEST TRADE PARTNERS, BUT BULGARIA NUDGED POLAND OUT OF THIRD PLACE AMONG SOVIET CMEA TRADE PARTNERS. ROMANIA WAS THE ONLY SOCIALIST COUNTRY WHOSE TRADE WITH THE USSR DECLINED IN VALUE.
- 5. 4007 SOVIET TRADE WITH INDUSTRIAL CAPITALIST COUNTRIES AS A GROUP WAS NEARLY IN BALANCE. WITH A TURNOVER OF 37.7 BILLION RUBLES. SOVIET EXPORTS INCREASED BY 9.3 PERCENT, ROUGHLY DOUBLE THE GROWTH RATE FOR SOVIET IMPORTS FROM THIS GROUP. THIS 4.4 PERCENT INCREASE IN SOVIET IMPORTS IS THE LOWEST RATE SINCE 1977.
- 6. (LOU) FOR SOVIET TRADE WITH INDIVIDUAL COUNTRIES, THE NEWSPAPER PUBLISHED ONLY TRADE TURNOVER STATISTICS (LUMPING IMPORTS WITH EXPORTS), OBSCURING INTERESTING DEVELOPMENTS.

ESPECIALLY IN THE UNBALANCED TRADE WITH WESTERN PARTNERS.

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BY CI NARADATE 7/2/08

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USDOC FOR IEP/EUR/USSR PARIS ALSO FOR USOECD E.O. 12356: N/A TAGS: ETRD. UR SUBJECT: 1982 SOVIET FOREIGN TRADE: SOVIET STATISTICS RECENT YEARS HAVE BEEN MARKED BY SOVIET DEFICITS IN TRADE WITH JAPAN, U.S., CANADA, AND AUSTRALIA, AND SOVIET SURPLUSES WITH WESTERN EUROPE. NONETHELESS, SOVIET DATA REVEALS STRIKING DECLINES IN TRADE WITH FRANCE, 17 PERCENT, AND AUSTRIA, 11 PERCENT, AS WELL AS MINOR FALLS IN SOVIET TRADE WITH CANADA AND AUSTRALIA. WE THINK THE LATTER STEMMED FROM LOWER PRICES FOR CANADIAN AND AUSTRALIAN GRAINS, RATHER THAN LOWER SOVIET IMPORTS. 10 PERCENT TO 34 PERCENT INCREASES TOOK PLACE IN SOVIET TWO-WAY TRADE WITH JAPAN, THE FRG, ITALY, BELGIUM, NETHERLANDS, AND THE U.S. THE SHARP INCREASE IN THE VOLUME OF 1982 SOVIET OIL EXPORTS TO WEST EUROPE WAS A DECISIVE FACTOR. FINLAND, THE SOVIETS' SECOND-LARGEST CAPITALIST TRADE PARTNER, TRADES WITH THE USSR ON A CLEARING BASIS, BUT HARD GOODS (SOVIET OIL, HIGH-QUALITY FINNISH MACHINERY) ARE EXCHANGED.

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7_ (LOU) KLOCHEK ACKNOWLEDGED INCREASED SOVIET TRADE WITH THE U.S., BUT SNIPED AT U.S. PIPELINE SANCTIONS AND CONTIN-UED ATTEMPTS TO RESTRICT EAST-WEST TRADE AND CREDIT FLOWS. HE INDIRECTLY CRITICIZED THE EEC'S LIMITS ON SOVIET LUXURY IMPORTS.

8. MOU) SOVIET TRADE WITH THE LDC'S IS MORE VOLATILE. SOVIET EXPORTS JUMPED 17 PERCENT TO 10.2 BILLION RUBLES' WHILE SOVIET IMPORTS FELL 14 PERCENT TO 6.7 RILLION RUBLES GIVING THE USSR ABOUT HALF OF ITS WORLDWIDE TRADE SURPLUS. IT IS DIFFICULT TO JUDGE WHAT SHARE OF THIS TRADE IS A HARD-CURRENCY SURPLUS. INDIA IS THE MOST SIZEABLE CLEARING ACCOUNT PARTNER IN THIS GROUPING, BUT SOFT GOODS (THOSE DIFFICULT TO SELL FOR HARD CURRENCY) FINANCED BY RUBLE CREDITS MAY ACCOUNT FOR A SIGNIFICANT SHARE OF SOVIET TRADE WITH LDC'S OTHER THAN INDIA. ON THE OTHER HAND, WE PRESUME THAT THE USSR HAS ACCUMULATED SOME HARD CURRENCY FROM ITS TRADE SURPLUS WITH LDC'S.

9. (Let) ARGENTINA, WHICH EDGED OUT INDIA IN 1981 AS THE LEADING LDC TRADE PARTNER OF THE USSR, SAW ITS TRADE VOLUME HALVE IN 1982. WE NOTE THAT THE U.S. PARTIAL GRAINS EMBARGO OF 1980-81 STIMULATED ARGENTINA'S 1981 EXPORTS. LIBYA'S TRADE WITH THE USSR NEARLY TRIPLED IN 1982 TO PLACE IT SECOND BEHIND INDIA. (EXPORT OF LIBYAN OIL TO PAY DEBTS FOR PRIOR SOVIET ARMS DELIVERIES MAY BE A FACTOR.) SOVIET IRAQI TRADE CONTINUED TO OUT-DISTANCE SOVIET TRADE WITH IRAN. THE LATTER FELL 13 PERCENT IN 1982, WHEREAS SOVIET-TURKISH TRADE FELL 44 PERCENT.

18. (COU) KOLCHEK INCLUDED SCATTERED STATISTICS ON THE SECTORAL COMPOSITION OF SOVIET IMPORTS AND EXPORTS. WE PLAN TO INCLUDE THESE AS PART OF A SEPARATE, SECTORAL REVIEW OF 1982 SOVIET-WESTERN TRADE.

11.40) SOVIET EXPORTS AND IMPORTS BY GROUPS OF COUNTRIES (IN BILLION RUBLES)

1981

1982

ALL

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EGYPT		51	11	521	
SYRIA		53	3.0	512	
TURKEY		44	18	248	3

13. (LOU) COMMENT ON THE OUTLOOK. SOVIET FOREIGN TRADE OFFICIALS WILL HAVE DIFFICULTY REPEATING LAST YEAR'S PER-FORMANCE IN 1983.

-- THE USSR HAS ALREADY ABSORBED AN 11 PERCENT CUT IN WESTERN OIL PRICES, AND MAY LOSE MORE. SUSTAINING OIL INCOME BY BOOSTING VOLUME WILL DEPEND UPON THE RATE AT WHICH SOVIET (AND EASTERN EUROPEAN) DOMESTIC USERS CAN SWITCH FROM OIL TO GAS -- PRODUCTION IS INCREASING TOO SLOWLY, AND CONSERVATION THROUGH MORE ENERGY-EFFICIENT MACHINERY AND TRANSPORT EQUIPMENT WILL TAKE A LONG TIME.

-- IT IS HARD TO IMAGINE EASTERN EUROPEAN COUNTRIES

CONTINUING TO PAY HIGHER PRICES FOR SOVIET OIL ONCE THE CMEA PRICE RISES ABOUT WORLD PRICES. AS IT MAY THIS YEAR. THIS ISSUE WILL ALSO AFFECT THE SOVIETS' ABILITY TO REDUCE THE POLISH TRADE DEFICIT FURTHER SHOULD THEY DECIDE IT IS POLITICALLY SAFE TO DO SO.

-- EXPORTS OF RAW MATERIALS AND OTHER BASIC PRODUCTS (E.G., CHEMICALS) FACE THE PROBABILITY OF LOW PRICES IF WESTERN ECONOMIES RECOVER SLOWLY.

-- ALTHOUGH THE SOVIETS HAVE SHOWN PARTICULAR SKILL IN MANAGING THE OVERALL LEVEL OF IMPORTS IN 1982, WE DO NOT KNOW HOW MUCH LATITUDE THE 1983 GRAIN CROP WILL GIVE THEM. SO FAR THE WINTER WHEAT CROP DOES NOT LOOK AS IF IT WILL HELP.

-- SLOWING OR LIMITING IMPORTS OF INDUSTRIAL EQUIPMENT. STEEL AND SPECIALTY CHEMICALS REMAINS AN OPTION. BUT ONE WHICH COULD AFFECT DOMESTIC PLAN FULFILLMENT. MORE HARD CURRENCY BORROWING COULD BE A MORE ATTRACTIVE OPTION, ESPECIALLY IF WESTERN INTEREST RATES DECLINE FURTHER -- OR IF WESTERN SOLIDARITY ON THE TERMS FOR OFFICIAL CREDITS SHOULD BREAK UP. END COMMENT. HARTMAN



BURFAU OF INTELLIGENCE AND RESEARCH

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(U) BOON OR BANE FOR THE SOVIET ECONOMY? 1/ SIBERIA:

Summary

Siberian development, particularly the exploitation of the area's oil and gas resources, has come to play a pivotal role in the Soviet Union's overall economic growth. Early Soviet development strategy favored a balanced development of natural resources and industrial production in the eastern regions. But institutional changes in the planning mechanism and a growing preoccupation with accelerating the extraction of fuel thwarted achievement of this goal.

With Siberia assuming the role of principal supplier of oil and gas for the entire Soviet economy in recent years, the region has been turned into a fuel-energy appendage increasingly dependent on the rest of the country for industrial products. This serious maldistribution of investment resources not only has indefinitely delayed Siberia's overall industrial development but also has affected its continued ability to maintain, let alone increase, its fuel production, whether it be oil or gas.

Given the difficulties in which the Soviet economy finds itself, it is hard to imagine how any

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Report 598-AR April 15, 1983

The principal findings in this paper are based on a monograph, "Current Problems in the Industrialization of Siberia," by Boris Rumer of the Russian Institute at Harvard University. Rumer's work was commissioned by the National Council for Soviet and East European Research, which is supported by funds from the Departments of Defense and State, the Arms Control and Disarmament Agency, and the Central Intelligence Agency.

- ii -

Soviet leadership could redress this situation any time soon by shifting greater investment resources to Siberian industrial development. Such a step would require a revamping of basic economic priorities which seems highly unlikely. Chances are that for years to come Siberia will continue to be exploited rather than developed.

* * * * * *

Original Plans Optimistic

Early Soviet plans for Siberian development were to maintain high rates of growth in the extractive branches, especially fuels, and rapidly develop manufacturing industries, especially machine-building. The growth rates of machine-building production in western Siberia were expected to exceed the growth of fuel output.

Locating energy-intensive production in Siberia could maximize the utilization of the region's fuel and energy resources. Energy-intensive production, notably through the use of electricity, also was well suited to the area's extreme paucity of labor resources. Thus, Siberian-generated electric power was regarded as a key element in the region's industrial development. The planners felt that electric power generation should exceed fuel production as well as industrial production. Concomitant plans were to foster the highest possible growth rates in construction materials output to rival power production.

The Siberian development plans fashioned in the 1960s have their intellectual origin in Soviet long-range economic schemes of the immediate post-Revolution years. The idea was advanced in the 1920s to divide the country into independent regional units for purposes of economic planning. This scheme was followed throughout the 1920s and the early 1930s. The first five-year plan featured regional breakdowns by emphasizing the comprehensive development of the economy of each region.

Institutional Barriers Arise

The notion of balanced Siberian regional development suffered a serious setback with the creation of economic ministries in the late 1930s. These ministries disregarded the balanced regional planning principle whenever economic questions regarding less developed eastern regions were decided. Because the new ministries also had increasing access to the necessary material and technical research, they became powerful economic systems that could no longer be counterbalanced by territorial organs of equal influence in decisionmaking. Both those developments had effects on Siberian industrial development, partly perpetuating the practice of investment and expanded production in the country's older industrial regions to meet more quickly the needs of a weak infrastructure, thereby skewing the Siberian industrial structure even further.

Fuel is King

Given the risng share of investment in Siberia in the post-Khrushchev period, the rate of development of Siberia's economy was expected to have been significantly greater than the average for the rest of the USSR. Actual figures, however, showed little accelerated growth. Even if these planning figures were largely fictitious, failure to meet them was even greater for Siberia than for the country as a whole.

Planned and Actual Growth of Gross Industrial Output (%)

	1959-65	1966-70	1971-75	1976-80	
	plan act.	plan act.	plan act.	plan act.	
USSR	180 184	150 150	147 143	135 125	
Siberia	250 185	166 154	163 151	150 130	

The exception was the fuel industry. Three distinct periods characterized this aspect of the region's overall industry:

- --Until 1965, coal was the main product with gas and oil well behind.
- --Between 1965 and 1980, the west Siberian oil and gas complex was developed. Oil production predominated during this period; its share stabilized by 1980 while gas production increased substantially and coal declined.
- --Energy policy since 1980 has been to substitute gas and coal for liquid fuel in electric power stations to maximize the use of oil to meet export needs.

This contemplated change in the configuration of the region's energy production will turn west Siberia into a gas-oil complex. The Siberian proportion of incremental increase rose from less than one-fourth of the total increase in Soviet output in 1965-70 to more than two-thirds in 1970-75. By 1975-80 Siberian fuel production not only accounted for the entire increase but made up for the production decline in several other regions. At that rate, the planned output for the 1982-83 period calls for Siberia to produce more than half of the country's basic fuel resources.

The Plan Goes Astray

The rate of growth in investment in the region's economy has fallen and underinvestment in Siberia's manufacturing has become acute. Certain anomalies derive from this development, such as

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- 3 -

the country's new production facilities in petrochemicals being located mainly in the old European regions that suffer from fuel and water shortages.

Another factor contributing to the insufficiency of investment in Siberia is the area's natural and climatic conditions, which require larger capital investments per unit of output. Moreover, as the exploration of fuel resources has shifted northward, the investment ratio has risen sharply; for example, in the gas industry it is 70 percent greater in the higher latitudes than in the middle latitudes. The net result is that the everincreasing cost of construction leaves correspondingly less for net increases in production.

Imbalance Creates New Dependency

This asymmetrical development has been reinforced by the 1980-85 plan, which calls for increasing emphasis on investment in the fuel branches at the expense of other industrial sectors. The proposed overall capital investment increase in the fuel-energy complex compared with the stipulated decline in the rate of growth of investment in industry can only widen the disproportion between extractive and manufacturing industries in Siberia. These policies not only will gut the chances for the long-term balanced industrial development of the region but also will strengthen the trend of making Siberia the fuel-energy complex for the industrial development of the other regions of the country.

Necessity Overrides Opportunity

The example of Siberia illustrates the perennial dilemma of Soviet planners in fashioning a sound development strategy for the country's new regions. The question often is whether to regard a new area as both an integral and a narrowly defined part of the country's economic system and thus highly dependent on it, or to aim at an area's relative functional completeness without neglecting specialization in a few products.

Although Soviet history seems to have favored the integrationist approach, political and economic reasons may not always have dictated such an outcome. They may well have been in the forefront where national republics were concerned, when potential aspirations for economic autarcky were regarded as dangerous and therefore needed to be suppressed. But in the eastern parts of the empire, economic development in the absence of significant national minorities posed fewer opportunities for centripetal political and national minorities to arise. Conversely, military-strategic factors as well as the earlier idea of "territorial production complexes" might have been expected to encourage Soviet leaders to create autonomous economic regions.

- 4 -

In retrospect, the major reason which may have been responsible for the adoption of an integrationist approach by the Soviets in the case of new regions seems to have been the satisfaction of an immediate need or acute requirement, be it an important raw material or, as in the present case, fuel. Moreover, such policies typically were followed without regard for any broader consequences for the region.

Prepared by Eric Willenz 632-2225

Approved by E. Raymond Platig 632-1342

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2. SUMMARY: IN A FURTHER SOVIET RESPONSE TO "SOVIET MILITARY POWER," ADMIRAL OF THE SOVIET FLEET GORSHKOV OUTLINES IN A LENGTHY PRAVDA ARTICLE THE THREAT POSED TO THE SOVIET UNION AND ITS ALLIES BY U.S. NAVAL FORCES AND BASES ON THE USSR'S PERIPHERY. ALLEGING THAT EXPANDING U.S. NAVAL CAPABILITIES AIM AT "CUTTING THE USSR OFF FROM THE SEA," GORSHKOV DOES NOT REPEAT GROMYKO'S APRIL 2 CLAIM THAT U.S. THEATER FORCES AROUND THE USSR THREATEN SOVIET CENTRAL STRATEGIC SYSTEMS. END SUMMARY.

3. SOVIET ADMIRAL OF THE FLEET SERGEL GORSHKOV IN A LENGTHY APRIL 15 PRAVDA ARTICLE PORTRAYS IN VIVID DETAIL THE THREAT POSED TO THE SOVIET UNION AND ITS ALLIES BY U.S. NAVAL FORCES AND BASES AROUND THE USSR'S PERIPHERY. LIKE GROMYKO IN HIS APRIL 2 PRESS CONFERENCE, GORSHKOV DESCRIBES OVER 100 ALLEGED U.S. BASES AND SUPPLY FACILITIES FROM NORWAY TO JAPAN CAPABLE OF SUPPORTING "MAJOR" NAVAL FORCES AND RECONNAISANCE OPERATIONS. HE GOES INTO CONSIDERABLE DETAIL ABOUT U.S. BASING AND ACCESS ARRANGEMENTS IN INDIAN OCEAN AND MIDDLE EAST AREA, CITING FORMATION OF CENTCOM, ACCESS TO OMAN, KENYA AND SOMALIA, EVEN U.S. MILITARY USE OF DJIBOUTI. HE ALLEGES THAT SOUTH AFRICA HAS AGREED TO MAKE SIMONSTOWN NAVAL BASE AVAILABLE TO U.S. WHILE NOTING THAT CERTAIN OF THESE FORCES (SLBN'S FROM HOLY LOCH AND "NUCLEAR-CAPABLE AIR-STRIKE UNITS" IN JAPAN AND KOREA) CARRY NUCLEAR WEAPONS, HE DOES NOT DWELL ON THIS ASPECT OF THE PROBLEM, AND FAILS TO REPEAT

THE FOREIGN MINISTER'S CLAIM THAT U.S. THEATER FORCES ENCIRCLING THE SOVIET UNION POSE A FIRST STRIKE THREAT TO SOVIET CENTRAL STRATEGIC SYSTEMS.

- 4. INSTEAD, GORSHKOV ASSERTS THAT GROWING AND MORE ACTIVE U.S. NAVAL CAPABILITIES AROUND THE SOVIET UNION ARE AIMED AT "THE DEVELOPMENT OF MEANS FOR CUTTING OFF (PO BLOKIROBANIYU) THE USSR FROM THE SEA." HE PORTRAYS U.S. CARRIER OPERATIONS IN THE SEA OF JAPAN, INCLUDING LAST FALL'S EXERCISE IN THE SEA OF OKHOTSK, AS MANIFESTATIONS OF SUCH EFFORTS. GORSHKOV CITES U.S. PLANS TO STATION THE BATTLESHIP NEW JERSEY AND CVN CARL VINSON OFF THE SOVIET FAR EAST AS FURTHER EVIDENCE.
- 5. U.S. EFFORTS TO EXPAND ITS NAVAL POWER AND OBTAIN ADDITIONAL OVERSEAS BASES, ACCORDING TO GORSHKOV, SHOW CLEARLY "WHENCE THE REAL THREAT TO THE CAUSE OF PEACE AND INTERNATIONAL SECURITY." AFTER ENDORSING THE JANUARY 5 PRAGUE DECLARATION'S CALLS FOR RESTRICTIONS ON NAVAL ACTIVITIES AND FOR ACTION, INTER ALIA, ON SOVIET INDIAN OCEAN AND MEDITERRANEAN PROPOSALS, HE CONCLUDES BY AFFIRMING THAT THE SOVIET UNION'S MILITARY DOCTRINE IS PURELY DEFENSIVE, AND THAT MOSCOW DOES NOT SEEK MILITARY SUPERIORITY, BUT THAT IT WILL NOT CONCEDE SUPERIORITY TO ANYONE ELSE.
- 6. COMMENT: THE LATEST IN A SERIES OF ARTICLES BY MAJOR SOVIET MILITARY FIGURES, GORSHKOV'S PIECE APPEARS DESIGNED -- LIKE ITS PREDECESSORS -- PRIMARILY TO COUNTER WESTERN EFFORTS TO EDUCATE WORLD OPINION ON SOVIET MILITARY CAPABILITIES. INDEED, IT CAN BE READ AS A DIRECT RESPONSE TO SECTION VI (SOVIET POWER PROJECTION) OF "SOVIET MILITARY POWER." GORSHKOV'S FAILURE TO REITERATE GROMYKO'S ASSERTIONS OF THE VULNERABILITY OF SOVIET CENTRAL SYSTEMS TO U.S. THEATER FORCES MAY REFLECT SOVIET

RECOGNITION OF THE UNTENABILITY OF THIS CHARGE. HARTMAN

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NLRR <u>F66-114/7</u> # 9679 BY <u>CV</u> NARADATE 7/7/08

NATIONAL SECURITY COUNCIL

April 15, 1983

TO:

JOHN LENCZOWSKI PAULA DOBRIANSKY ROGER W. ROBINSON

FROM: NORMAN A. BAILEY

FYI.



THE FOUNDATION FOR SOVIET STUDIES

a non-profit organization

2417 Homestead Drive, Silver Spring, MD 20902 (301) 593-5286

April 11, 1983

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Dr. Norman Bailey
National Security Council
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Dear Dr. Bailey:

I was honored by your call to me today.

As I said to you, about two months ago, I submitted to the Director of Net Assessment, Department of Defense, Mr. Andrew W. Marshall, a draft of my report. The report is written as a review of the CIA's work on consumption in the USSR and the US. I would be happy to pass along to you a copy of the report, but it would be better if you call Mr. Marshall, 697-1312.

Enclosed is a copy of my article, where I try to show that the state of Soviet economics is not bad, but desperate. Seemingly, because my position is unique, I have managed to publish only a small portion of the article -- in the Wall Street Journal (a copy is enclosed).

Let me assure you that my colleagues in the Foundation for Soviet Studies and I will be happy to be of service to you.

Sincerely,

I. Birman

enclosures

THE SOVIET ECONOMY IS THE ONLY THREAT TO COMRADE ANDROPOV

The change of guard in the Kremlin once again raises the question about the state of Soviet economic affairs. That this state is bad is not news; a year ago Western observers finally noticed this. But far from all of them recognize the extent of the badness. If our economy is the biggest problem for mister Reagan, the Soviet economy is much more so for comrade Andropov. It is the only real threat to his own power.

First a little about comparative size of the Soviet economy. The USSR militarily might creates the impression that the Soviet economy is larger than it really is. The comparison of the Soviet economy with American is extremely complex and requires a lot of information and calculations.

Practically no Western organization can compete with the CIA in such estimates. Having no doubts in honesty, dilligence, and skills of the CIA economists, I humbly dare to disagree with the results of their comparisons.

They claim that the USSR produces 60% of American GNP, that in regard to its components, the Soviet per capita consumption is one-third of American, that investment is 123% and military expenditures are 136% of American. Two years ago I protested these estimates in the Washington Post. My disagreements with the CIA were then based chiefly on "general considerations" and intuition; now I have all the proofs. In particular, I considered in depth the CIA calculations of consumption and discovered a lot of mistakes, misjudgements and methodological flaws.

Alas, I cannot give here all the details, but a few examples will not hurt. The CIA compared so-called live weight of fish consumed in the USSR with edible weight in the U.S. Or, they compared all Soviet footwear with American leather shoes. Or, they did not take into account that only 30% of

Soviet telephones are in private use (74% in the U.S.) and confused the number of telephone instruments with the number of telephone lines. While trade mark-up is only 7% of average retail price in the USSR, it is 40% in the U.S., which reflects a fundamental difference in trade services; the CIA did not put this in the calculations.

This sad list is long and instead of going on, I must say that the main issue here is the fact that the CIA estimates don't take into proper consideration huge differences in quality of Soviet and American goods and services. This has a long history. Ten to fifteen years ago, the comparisons simply ignored such differences; as a former official of the CIA put it, one horsepower was equated with one horsepower. In the new estimates, an attempt to include the differences into calculations was made, but, in my opinion, this is not enough. But even ignoring these differences, we can make some elementary calculations based on official data. By projecting the growth of the Soviet per capita consumption during the last two decades into the future, we can determine in how many years the Soviet consumer would catch up with the existing level in America. It turns out that the Soviet consumer will have as much as Americans had in 1976 of: meat in 80 years, fruits in 60, cars in 100, housing space in 155, telephones in 130, and roads in 260 years from now. These estimates ignore much higher American quality and rest on an assumption that the Soviet economy will have the same rate of growth which it had in the 1960's and 1970's. In other words, there is not the slightest hope that the Soviet consumer will come close to American living standards in the foreseeable future. Or, to summarize, the CIA is grossly mistaken here -- the Soviets consume not three but at best four to five times less than Americans.

I did not have an opportunity to examine the CIA calculations on investment as closely as on consumption, but here as well the gross overstatement is crystal clear. The simple fact that American industry is not only larger but also much better mechanized (tens of millions of Soviet workers are still working manually) indicates that it uses much more investment. In addition, depreciation in the U.S. is much faster. The figures above about the Soviet lag in housing space could give the reader an idea of the Soviet lag in construction. All this means that Soviet investment is in fact much smaller than American.

In regard to the military component of GNP, a lot is not clear. For sure, the Soviet military expenditures are huge, so huge that the CIA's assertion that their share in the GNP is 12-14% underestimates the share by a factor of two. Once again I cannot go into details here, so only one comment. As far as I may judge from publications, the CIA bases its calculations on Soviet prices. But the prices don't reflect the fact that Soviet military industries employ the best brains and skills, can use the best materials and equipment (including imported) and that these industries are artificially excluded from the Soviet economy's shortages, However, the military component cannot "compensate" for the enormous lag of the other two components.

No less important is, of course, another issue, the current economic situation. Western observers are psychologically trapped by unintentional comparisons with our own economics. The point is not only that the economies are now in pretty bad shape and we project this image onto the Soviet economy without regognizing that the reasons are different. More importantly, many are used to the thought that economies have their "ups" and "downs." Capitalist (quasi-capitalist) economies, which are economies of abundance, have tremendous reserves and for each "down" phase the problem is how to put them into action. Depending on how the problem is resolved, the "up" phase will follow sooner or later more or less substantial, but it will. So, the observers, looking into the Soviet economy, are expecting that in a while it will go up. But the Soviet socialist (without "quasi") economy is different; it is an economy of shortages, it is an economy without reserves. Until now the economy grew by using its huge reservoir of labor, at the expense of the

consumer (who did not protest that about 30% of the national product was used for investment), and by using cheap natural resources and Western technologies. But all this is not so now. Labor and cheap natural resources have been exhausted, the consumer is sick and tired of future welfare promises. Therefore the growth of the economy came to a halt. Although official statistics claim that the economy is still growing, it is not quite so; in more accurate estimates it is approaching zero growth.

The observers keep saying that the difficulty of the Soviet economy is shortage of labor, fuel, and other resources, and bad weather which affected the agriculture for four years in a row. Well, in regard to labor, we should note that the real cause is exceptionally low productivity, which is quite a few times less than in modern economies. In regard to natural resources, it is true that they are mostly in Siberia, i.e., far away and expensive, but for an effective economy it would not be a big obstacle. And in regard to agriculture, I should say that only in the Bible legend were there seven lean years in a row. No, the real cause of the deplorable state of the Soviet economy is the economic system and its fundamental impotence.

There is no reason on the Soviet earth to expect that the current "down" of the economy will be alternated with an "up." On the contrary, the worse the economy performs, the larger and more painful are its imbalances, the more serious is the aggitation of the consumer, the fewer are the possibilities for expansion of investment and exports. The basic point is that, to repeat, the economy has no reserves to use and to reverse the situation.

If a miracle does not happen, the economy will produce less and less; negative economic growth is on the horizon, and fall of the economy is behind the horison.

Recently, a few Western prognoses (forecasts) of the Soviet economy have been published, among them some by the CIA and by the Wharton School. They assert that in spite of all of the difficulties, the Soviet economy will somehow "muddle through," and the rate of growth in the 1980's will be 2% a year. With all due respect I cannot agree.

First of all, we have rather sad experience with the previous forecasts. As Vladimir Kontorovich demonstrated, all the forecasts made in the 1970's predicted the Soviet economic growth would be faster than followed from "naive" extrapolation. No reasons for such projections were suggested and they happened to be wrong — the Soviet economy worked worse than direct extrapolation suggested. Secondly, the forecasters give no explanations for their projections; they do not indicate what reasons will reverse the long trend of the Soviet economy downward. Thirdly, as I wrote elsewhere, under specific conditions of the Soviet economic system, the economy of shortages, the lower the rate of growth, the worse it is for the economy — disproportions, imbalances are not counteracted.

* * *

The state of the economy is so bad that Andropov has to do something fast. But what?

To raise the share of investment? But it is too high already. To shift money from the military? But he depends on the support of the army. And this shift is not easy — military branches of industry cannot overnight begin to produce consumer goods. To ask for foreign help? There are people in the West who cry that such help must be provided. But, political and moral considerations aside, maybe the Polish lesson is enough — there is no way to retrieve 25 billion dollars.

To implement swift economic reforms? This is maybe the only reasonable choice, but it is not easy. Many say that the reforms of the system are hardly possible because the mighty Soviet bureaucracy will resist them. This is very true but presents only a small part of the picture.

One point is that though the general direction of the reforms towards "liberalization," decentralization, i.e., towards a capitalist market system, appears quite logical, nobody knows how to do it. Almost 20 years ago I took part in preparation for the economic reform of 1965 (it is called in the West Liberman or Kosygin reform; both are wrong) and I witness that nobody knew how to implement this general idea practically. Let me remind the reader that something of this kind was done in Yugoslavia and Hungary with no good results. Yugoslavia's economy is on a Grink of collapse. Some people praise Hungarian economy, but its per capita foreign debt is more than that of Poland.

My former colleagues, Soviet economists, are now quick to indicate different problems and troubles of the economy. They suggest some minimal,

minor changes but, as far as I know, nobody has a comprehensive detailed program which can radically improve the system.

The key of the problem is that you cannot form a market system without capitalists. It is as simple as this but even those who understand it in the USSR cannot admit it. Another point is that if some radical and effective program is implemented, in all cases before things will get better they will get worse. Indeed, the system is somehow working, and you cannot put in its place something radically different overnight. You have to destroy the old system but a new system, even if it is absolutely wonderful, would not work smoothly immediately. New institutions must be created.

There are no people who know how to work under new conditions; they will make a lot of mistakes and, once again, there are so far no reserves in the economy to compensate for these mistakes.

I would hope that comrade Andropov understands that not bad weather but collective farms cause insufficient harvests. So, they should be disbanded. But to give a collective farmer land and the right to do what he wishes is only the beginning. There is no machinery to work on small plots; chemicals are scarce. Poland's peasants are free of collective farms but Polish agriculture is hardly better than Soviet. Long years, big money, and help of the state are needed to restore normal agriculture in the USSR. But food is needed everyday. Or, another example, many Soviet enterprises are not profitable, technology is too old, the quality of goods is terrible. Obviously they must be shut down but time is needed to substitute their production by new profitable enterprises.

* * *

One more point. Our own economic plagues are inflation, the budget deficits and inadequate savings of the population. What about these things in the USSR? For years the observers thought that the Soviet economy is inflation-proof, and that the Soviet state budget has no deficit. Not so. Although hidden by the statistics, although perhaps not so rampant as in the West, inflation is a fact of Soviet life and its rate is on the rise. What was not noticed at all is that the Soviet state budget has a permanent deficit. My detailed study proves this fact beyond doubt and demonstrates that the deficit is growing. In the West budget deficits are covered by the state debts. But in specific Soviet conditions the deficit is covered only by printing press.

Still more interesting is savings of the Soviet population. In my estimates the population has now about 250 billion rubles in savings banks, in cash (under mattresses), and in bonds. To illustrate what this means, it is sufficient to say that this colossal sum is about the population's annual earnings in wages.

Western savings are a source of investment, but in the USSR private investment doesn't exist and the savings present delayed demand for consumer goods. One can say, and the Soviet economists in fact do, that the savings of the population are used as a source of investment by the state. However, once again, in the Soviet economy of shortages, investments are limited not by financial means but by labor, materials, and equipment.

Growing lines for all necessities are the direct result of the fact that money incomes of the population for years exceeded greatly its possibilities to buy goods and services. The savings prevent so needed attempts to stimulate higher productivity of labor. Why bother to work harder if additional pay cannot be rationally spent.

The authorities are practically forced to take the savings from the population. One possibility is to raise prices, but even if they were raised by 25-30%, it would take 5-7 years to bring the savings back to a normal level, and, of course, it will hit at the poor, at those who don't have the savings. Of course the well-to-do will not be happy with high prices either.

The savings were a terrible problem even 10 years ago and then in Moscow I used to say that taking them from the population was economically necessary but politically impossible. Since then savings increased at minimum by more than 3 times. Economically it is even more necessary now but no easier politically.

* * *

I would not say that the Soviet foreign trade issue is clear to all of us. For years an opinion prevailed that it was not crucially important for the USSR. The opinion was based on the calculations in dollars. But the Soviet economy works in rubles. It was overlooked that because of vast differences in hard currency and ruble prices, the USSR earns colossal amounts of rubles from foreign trade though it has a deficit in dollars. In my estimates no less than 10% of all revenues of the Soviet state budget come from foreign trade, from these differences. Secondly, in my estimates imports represent about 15% of national income in rubles and according to B. Kostinsky and V. Treml even more. So, even import of Western technology aside, foreign trade is of utmost importance.

The figures above pertain not only to trade with the West but to all trade, including so-called socialist countries. This is one of the reasons

why the Soviet rulers are so eager to keep all the satellites in their orbit. However, trade with Western countries is not less important for the USSR.

The Soviets want foreign trade with the West to keep going, but they need to buy a lot and have not so much to sell. Gold sales on the scale of Soviet needs are minimal. By selling a lot of weapons, the USSR became the world's second largest "seller of death," but the last Lebanon war advertized the Soviet weapons badly. Now more than 50% of Soviet hard currency earnings come from oil, but the prospects here are dim. So, what's left is gas, but when the pipe is finished, a big part of revenues from gas will substitute for revenues from oil; another part will have to be used to pay back credits and the rest will not satisfy all the needs.

There are businessmen in Europe, Japan, and America who are eager to trade with the bolsheviks. To trade means here to sell, not to buy, but even if they wanted to buy, the Soviets would have practically nothing to sell, besides gold and some raw materials.

Having emigrated in 1974 from the USSR, I became one of the Western observers. I excluded myself from those whose advice on economic matters is sometimes asked. But if I were there and were asked for advice I would not know what to suggest.

It seems, once again, that the only possibility is to divert all the resources from the military and to begin radical reforms immediately. The consensus is that it is not likely. If so, comrade Andropov, whether or not he is in power for a few more years, will lead the country to economic disaster.

The state of Soviet economic affairs should be fully recognized by our policy-makers. A lot can be said on the political consequences, but being an economist, I will stop here.

The author is an editor of $\underline{\text{Russia}}$ magazine. His latest book is $\underline{\text{Secret Incomes}}$ of the Soviet State Budget.

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ALL STREET JOURNAL



i reason. We're all vorld record for leg.'' English actress of limited talents, who has played big roles in very small provincial touring companies. How has a nice girl like this, who is neither Jewish nor Arab, been caught in the deadly games of terrorism and counter-terrorism between Palestinians and a group of Israeli special forces and intelligence agents in a pattern criss-crossing Burope from Beirut to the English midlands?

This is the new novel by John le Carre, "The Little Drummer Girl" (Knopf, 430 pages, \$15.95). Happily, the rules of our trade forbid reviewers to give away much of the plot of such a thriller, for though this

many, one in Beirut. In ways which you must learn from Mr. le Carre, the Israelis are forging a fictitious link between Michel and their higher game through the girl, Charlie.

In the course of her bohemian life, Charile has taken a number of "somewhat crazy radical stances" so that her own government has a small dossier on her. It has been sheer romantic radicalism until what she thinks is a chance meeting (but is not) with Joseph on a beach on the Greek island of Mykonos. When she embarks with him upon what she thinks is to be a spontaneous affair it proves to be her involuntary induction into the Israeli group.

The Israelis, as they induce her to believe, "knew her through and through; they knew her fragility and her plurality. And they still wanted her. They had stolen her in order to rescue her. After all her drifting, their straight line. After all her guilt and concealment, their acceptance. After all her words, their action, their abstemiousness, their clear-eyed seal, their authenticity, their true allegiance, to fill the emptiness that had yawned and screamed inside her like a bored demonger since she could remember." This is

A song some years ago proclaimed, "I've looked at life from both sides now."

March 21, 1883

the recruitment of a terrorist.

Will Andropov Purge the Passbooks?

By Igon Brassiv
The Soviet Union has a big problem:
The Soviet people save too much money.

In savings banks alone Soviet citizens keep over 170 billion rubles, plus, according to my estimate, about half this much in cash under mattresses and so forth. This means that total savings are approaching annual wages in the country and almost exceed the level of retail trade.

This tremendous level of savings might strike a Western observer as good; the more people save and subsequently invest. the better for them and their economy. But private investments aren't allowed in the Soviet socialist economy: there people save money to spend later of course, but mainly they save because they can't spend their money now. There simply aren't enough goods in stores, and those available are usually of poor quality. Lines to purchase consumer goods are growing longer mainly because money incomes are larger than the citizens' opportunities to buy goods and services. In short, the people's savings are forced on them.

Huge Soviet savings not only increase demand for goods and services, lengthen queues and contribute to advancing inflation, but they also impede attempts to improve the economic situation. Indeed, the only way is to increase labor productivity, but having very limited possibility to spend money as they wish, people don't want to

work harder for better pay. On the other hand, the basic part of Soviet industry produces non-consumer goods (weapons and the so-called means of production) and increased productivity resulting in pay raises will increase the demand for goods, i.e., the amount of savings. In order to restore the stimulative role of earnings, money accumulations by the population must be liquidated.

Yuri Andropov has on his hands a lot of social problems—inequalities of living standards in various regions, low pensions for collective farmers, shamefully low pay of medical personnel, etc. As elsewhere, social problems in the U.S.S.R. cannot be solved without infusion of money, which will once again increase the budget deficit and population savings.

The problem with savings is by no means new. Ten years ago I was a Soviet economist and looked at the problem from inside. I used to say that to take savings away from people was economically necessary but politically impossible. Impossible, because Comrade Brezhnev had no good excuse for such a Draconian measure. Since then the problems have become much worse: savings in savings banks alone have increased threefold. Imagine how you would feel if an amount equal to your yearly income were taken away from you! Another solution is to raise prices fur-

ther. But this would hart the many people who earn little and don't have savings. And this way is too slow. Even if all consumer prices were raised by as much as, let's say, 25%, savings would more or less return to normal in only five to seven years.

Practically speaking, Mr. Andropov has no other choice but to proclaim a monetary reform or to freeze savings in savings banks. He can blame this on Brezimev's reign and I believe he will.

It isn't clear how people will react. The Polish lesson proved once again that relatively few soldiers can control unarmed millions. Though we can hardly expect mass revolt in the U.S.S.R., people will be angry. Most people in most countries are concerned much more with their well-being than with political freedoms. And if (when) the Soviet regime takes money from the population, even those who support the regime now will think again.

A thing for us to think about is a possibility that somehow the Soviet people will understand the threat and rush to the savings banks and to the stores. What could happen in such a situation we can only guess.

Mr. Birman is an editor of Russia magazine. His latest book is "Secret Incomes of the Soviet State Budget." free to pick herself out of the rubble and walk the unpopulated streets."

This is the essence of tragedy in a story about "militant simplicity" in "a complicated world," a tale so immediate that, at its close, the recent invasion of Lebanon and further destruction of already shattered Beirut is beginning. Charlie has had to make a fearful choice; its consequences are bitter, shaking her sanity. She has seen that if two wrongs do not make a right, two rights can make tragic wrongs.

Mr. le Carre tries to end what he called in a recent interview, the "demonization" of the Palestinians, though Israelis dominate the story. At the close, it is the Israeli, Gadi Becker, or Joseph, who poses, a question he adapts from the late Arthur Kossiler: "What are we to become, I wonder? A Jewish homeland or an ugly little Spartan state?" The anguish in this dichotomy results in one of the finest, most troubling books of this master storyteller.

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Special Analysis

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USSR: Economic Performance

Soviet reporting on the USSR's economic performance has been noticeably optimistic this year. The 5-percent rise in industrial production reported for the first quarter, however, reflects a continuation of a short-term industrial recovery that began in mid-1982 and that may not last through the end of this year. President Andropov's emphasis on discipline may have contributed to some improvement, but statistics on monthly industrial activity throughout 1982 and early 1983 suggest that the discipline campaign did not provide the major impetus for the upturn. The substantial rise in industrial output for the first quarter of this year was a reflection more of the unusually poor performance during the comparable period in 1982 than of a better performance.

Industrial production began to increase after the middle of 1982, following an unusually poor performance partly caused by widespread power outages that idled a number of plants. The Soviets have been plaqued for several years by transportation disruptions, poor harvests, and bottlenecks in the supply of materials, and they probably took advantage of the increased production during last summer and fall to rebuild stocks of fuel, food, and industrial materials for the winter. Since 1979, Moscow has been especially concerned about the inadequacy of stocks and has issued at least two decrees calling for increases in the reserves of a myriad of products.

Although industrial production dropped in November and December, perhaps as a result of the uncertainties following Brezhnev's death, the upswing continued in January. Mild weather enabled seasonally adjusted production figures for most industrial products to rise above the trend of the last four years. By April, however, monthly production of most of these products had returned to the trend of the last five years.

This pattern of growth is not new. Industrial growth showed a similar rebound in early 1980, as compared with a dismal performance during severe weather in January and February of 1979. The rise was short lived, however, with the increase in production for the year falling below 3 percent.

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Prospects for the Rest of 1983

Industrial growth as a whole this year could again register less than 3 percent. If everything goes well, it could be higher.

As a result of the mild winter, the economy probably has larger stocks of fuel, grain, and possibly food and industrial raw materials. This could promote a smoother flow of raw materials, energy, and intermediate products among the producing and consuming industries. This would enable industry to maintain growth somewhat above the recent trend.

A good harvest of grain and other crops also would improve economic performance more broadly by increasing farm output and—indirectly—by improving the supply of raw materials for the food and light industries. Thus, an exceptionally strong showing for the farm sector and some upturn in industry could increase the growth in GNP to 3.5 to 4 percent.

On the other hand, if agriculture turns in another poor performance and if the bottlenecks in the supply of industrial materials become worse, the growth in GNP could be as low as 2 percent. This was the level recorded in 1981 and 1982.

Gains More Political Than Economic

A strong economic showing this year would help Andropov politically, but it would not be an indication of a higher growth rate over the longer term. Without some fundamental measures to induce sustained growth in productivity, long-term growth will have to depend on increases in labor and in plant and equipment.

The labor force will increase by only small amounts each year during the 1980s, and the slowdown in investment that has occurred in recent years will continue to retard the growth of fixed capital.

Labor, capital, and industrial raw materials will be in shorter supply in the 1980s than in the 1970s, and the long-term growth trend probably will decline. It will be likely to average 2 percent per year or less for the decade as a whole, as compared with 3.3 percent for the 1970s.

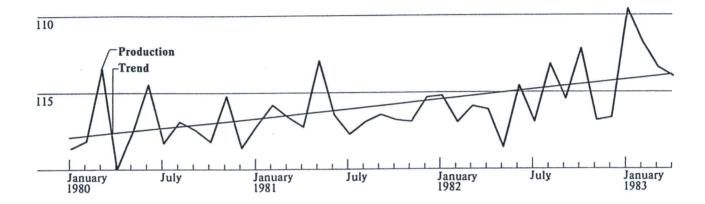
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USSR: Industrial Production

Composite Index, Seasonally Adjusted

Index: 1978=100

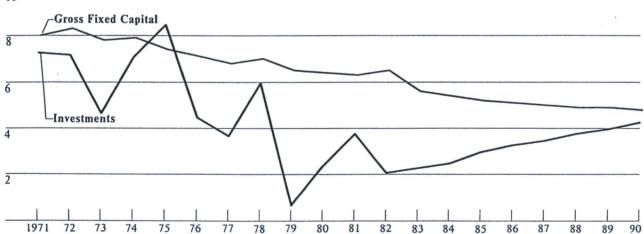
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USSR: Growth of New Fixed Investment and Gross Fixed Capital Stock^a



10



Data for 1983 based on Soviet plans. Data for 1984-90 are hypothetical and assume that investment growth is increased gradually from 2.5% in 1984 to 4.3% in 1990.

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BUREAU OF INTELLIGENCE AND RESEARCH - ANALYSIS - JUNE 29, 1983

1. USSR: ECONOMIC GAINS BEGINNING TO FADE

The rapid growth of Soviet industrial production from the first quarter of 1982 to the first quarter of this year has not been sustained. A rebound in agriculture would strengthen Andropov's position as well as the economy, but fundamental changes are required for long-term economic health. Meanwhile, trade results for the first quarter of this year point to a deterioration in the USSR's international financial position.

The Soviet economy remains on a slow-growth track despite the likelihood of some improvement this year. The regime has still not advanced fundamental changes to induce sustained growth in productivity. Since Andropov's discipline campaign is a one-shot affair, long-term gains will depend on increases in labor and fixed capital--which will remain limited.

The increase in industrial output during the first five months of 1983 compared to the same period in 1982 was only 4.1 percent. The 5 percent increase for the first three months of 1983 reflected recovery from poor performance in the first quarter of 1982, when power shortages idled numerous plants.

Despite the slowdown, this year's 3.2-percent target for industrial output could be exceeded, if agriculture can adequately supply light manufacturing and food industries in the third and fourth quarters. With a good year in the farm sector, GNP could grow by 4 or 5 percent, according to CIA estimates.

USDA believes the grain crop will total 200 million metric tons (mmt), assuming normal weather conditions. CIA estimates that the harvest could go as high as 205-210 mmt under optimal weather conditions. Although a 200 mmt harvest would be an improvement over the 1979-82 average of roughly 175 mmt, it would represent the fifth consecutive shortfall of 35 mmt or more from planned production. The shortfall over the last four years is equivalent to a full year's crop.

After a surge in fourth quarter exports, the USSR ended 1982 with a \$1.3 billion hard-currency trade deficit—down sharply from the \$4 billion deficit of 1981. Together with increased sales of arms and gold, which are not included in the trade account, this reduced deficit allowed the USSR to cut its borrowing and to rebuild deposits at Western banks to more than \$10 billion by year's end.

Last year's improvement in Moscow's external accounts is fading, however, according to first quarter 1983 trade statistics. Exports were down 6 percent and imports up nearly 5 percent, resulting in a \$2 billion trade deficit compared with a \$1.2 billion deficit in first quarter 1982.

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BUREAU OF INTELLIGENCE AND RESEARCH - ANALYSIS - JUNE 29, 1983

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1. JC ENTIRE TEXT.)

2. BEGIN SUMMARY AND COMMENT: IN A MAJOR SPEECH BEFORE A MEETING OF CPSU VETERANS ON AUGUST 15, GENERAL SECRETARY ANDROPOV PROCLAIMED HIS SUPPORT FOR THOROUGH-GOING IF EVOLUTIONARY CHANGE IN THE SOVIET ECONOMIC SYSTEM. WHILE MINDFUL OF THE NEED TO BUILD ON THE EXPERIENCE AND ACCUMU-LATED WISDOM OF THE PAST, AND WHILE DULY LAUDING THE CONTRIBUTIONS OF THE ELDER GENERATION, ANDROPOV STRESSED THAT INNOVATION WAS OF KEY INPORTANCE AND THAT THE WAY MUST BE CLEARED FOR YOUNGER GENERATIONS TO PLAY THEIR PART. HE UNDERSCORED THE NECESSITY FOR CHANGES IN PLANNING, MANAGEMENT, AND ECONOMIC MECHANISMS IN ADVANCE OF THE NEXT FIVE YEAR PLAN, AND CRITICIZED PREVIOUS RELIANCE ON "HALF-MEASURES" AND INSUFFICIENTLY DILIGENT SEARCHES FOR SOLUTIONS. AT THE SAME TIME, THE GENERAL SECRETARY CLEARLY SOUGHT TO REASSURE THOSE PARTY MEMBERS WARY OF RADICAL OR SYSTEMIC REFORM THAT CHANGES WILL BE UNDER-TAKEN CAREFULLY AND ONLY AFTER "UNHURRIED" EVALUATION OF LARGE-SCALE EXPERIMENTS. HE CHARACTERIZED HIS APPROACH

AS AKIN TO THAT OF THE OLD RUSSIAN PROVERB: "MEASURE SEVEN TIMES, CUT ONCE."

3. WHILE THE SUBSTANCE OF THIS SPEECH WAS NOT NEW, THE TONE WAS CLEARLY FORWARD-LOOKING AND COULD PRESAGE FURTHER INITIATIVES AND/OR EXPERIMENTS IN THE ECONOMIC SPHERE IN COMING MONTHS. LOOKING BACK OVER THE PAST FOUR MONTHS OR SO. IT NOW SEEMS CLEAR THAT ANDROPOV HAS RANGED HIMSELF ON THE SIDE OF THOSE WHO SUPPORT SIGNIFICANT CHANGE IN THE SOVIET UNION'S ECONOMIC SYSTEM. HIS APPROACH IS ALMOST SURE TO BE A CAUTIOUS ONE, WHETHER ON ACCOUNT OF HIS OWN INNATE CONSERVATISM OR BECAUSE OF HIS RECOGNITION THAT THE TASK IS EXCEEDINGLY COMPLEX AND THAT POWERFUL, ENTRENCHED INTERESTS NEED TO BE OVERCOME. MOREOVER, HE MAY NOT YET HAVE DETERMINED IN HIS OWN MIND WHAT SPECIFIC DIRECTIONS ECONOMIC CHANGE SHOULD TAKE. BUT THE ACCUMULATED THRUST OF HIS OWN PRONOUNCEMENTS, CULMINATING IN THIS AUGUST 15 SPEECH, IS PATENTLY IN THE DIRECTION OF MOVEMENT RATHER THAN MERE TINKERING WITH THE STATUS QUO. END SUMMARY AND COMMENT.

4. ANDROPOV'S APPEARANCE AT THE AUGUST 15 MEETING OF PARTY VETERANS -- WHICH WOULD UNDER ORDINARY CIRCUMSTANCES NOT HAVE MERITED HIS ATTENDANCE -- MAY HAVE BEEN PROMPTED IN PART BY A NEED TO SUM UP HIS VIEWS ON ECONOMIC CHANGE. IDEOLOGICAL WORK, AND THE REGENERATION OF PARTY CADRES IN ADVANCE OF THE LOCAL PARTY ORGANIZATION ELECTIONS SCHEDULED TO BEGIN IN SEPTEMBER. IN ADDITION, IT IS POSSIBLE THAT THE GENERAL SECRETARY WISHED TO UNDERSCORE JUST PRIOR TO DEPARTING FOR HIS ANNUAL VACATION THAT HE IS FULLY IN CHARGE AND THAT PREPARATIONS FOR ECONOMIC RENEWAL ARE MOVING STEADILY AHEAD UNDER HIS AEGIS. ANOTHER INTERPRETATION IS THAT HE WAS SEEKING TO PUT ON RECORD AN APPROACH TO ECONOMIC CHANGE FOR WHICH HE WAS UNABLE TO SECURE SUFFICIENT CENTRAL COMMITTEE ENDORSEMENT PRIOR TO THE JUNE PLENUM OR WHICH HAD NOT SUFFICIENTLY JELLED IN HIS OWN THEIR HIS ADDRESS TO THE ROLES OF THE OLD AND NEW GENERATIONS--THE LATTER BEING CLEARLY INTENDED AS AN ANALOGY FOR THE FORCES OF CHANGE. HE URGED THE OLDER GENERATION TO GIVE THE BENEFIT OF THEIR KNOWLEDGE AND EXPERIENCE TO MOLDING YOUTH AS A DISCIPLINED AND IDEOLOGICALLY-MINDED FORCE AND TO TAKE AN ACTIVE PART IN THE UPCOMING LOCAL PARTY ELECTION CYCLE.

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BY QI NARADATE 7/7/08

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FRAN P.

C O N F I D E N T I A L SECTION 02 OF 03 MOSCOW 10380

FOR AGRICULTURE PASS ELECTRONICALLY FOR FAS: ITP-AAEE, ERS E. O. 12356: DECL: OADR TAGS: ECON. PGOV. UR SUBJECT: ANDROPOV ON ECONOMIC CHANGES: MEASURE SEVEN BUT HIS DOMINANT MESSAGE APPEARED TO BE THAT THE WAY MUST BE CLEARED FOR YOUNGER GENERATIONS. AS ANDROPOV SOMEWHAT CRYPTICALLY POINTED OUT "AGE ALL THE SAME IS AGE" AND "ILLNESSES LIE IN WAIT WITH AGE." SINCE THESE REMARKS IN A LITERAL SENSE WOULD APPEAR TO BE AS PERTI-NENT TO HIMSELF AND MANY OF HIS POLITBURO COLLEAGUES AS TO HIS AGED AUDIENCE OF VETERANS, WE WOULD INTERPRET THEM TO REFER TO OUT-MODED IDEAS AND THE NEED FOR ADAPTATION.

- 6. WHILE ANDROPOV'S REMARKS ON THE ECONOMY WERE CAST ONLY IN GENERAL TERMS, HE MADE CLEAR HIS DISSATISFACTION WITH THE "HALF-MEASURES" OF THE PAST AND HIS CONVICTION THAT MORE FAR REACHING CHANGES WERE REQUIRED. WHILE STRESSING THE NEED FOR REALISM AND FOR TAKING INTO ACCOUNT THE "COMPLEXITY AND CONTRADICTORINESS OF PHENOMENA" IN SOCIETY, THE GENERAL SECRETARY CLEARLY PLACED A PREMIUM ON INNOVATION AND ON OVERCOMING SETTLED WAYS OF THOUGHT AND ACTION. HE DECLARED THAT CHANGES IN ECONOMIC PLANNING, MANAGEMENT AND MECHANISMS WERE "OBLIGATORY" PRIOR TO THE NEXT FIVE YEAR PLAN.
- 7. AT THE SAME TIME, ANDROPOV CAUTIONED AGAINST PRECI-PITOUS CHANGES WHOSE EFFECTS MAY NOT BE FULLY ANTICIPATED (THE "HAREBRAINED" SCHEMES OF KHRUSHCHEV MAY BE THE IMPLICIT REFERENT HERE). HE STRESSED THE COMPLEXITY AND SCALE OF THE SOVIET ECONOMY AND THE CONSEQUENT

TOR: 228/1630Z CSN: HCE129 NEED TO PROCEED "ESPECIALLY CAUTIOUSLY." EXPERIMENTS SHOULD BE CONDUCTED ON A LARGE-SCALE AND THEIR RESULTS ANALYZED "QUIETLY AND WITHOUT HURRY." ANDROPOV'S APPROACH TO THE ECONOMY WOULD THUS APPEAR, IN SUM, TO BE ONE OF METHODICAL AND PRAGMATIC INNOVATION.

- 8. THE GENERAL SECRETARY'S REMARKS ON IDEOLOGICAL WORK WERE LARGELY UNEXCEPTIONAL AND FOCUSED ON THE NEED TO OVERCOME THE "GAP BETWEEN WORD AND DEED" AND TO MAKE OF IDEOLOGY A MORE COMPELLING, EVERYDAY FORCE. WHILE NOT UNEXPECTEDLY STRESSING THE NEED TO TIGHTEN LABOR DISCIPLINE, HE PORTRAYED THIS AS MORE THAN SIMPLY ENSURING THAT WORKERS SHOW UP AT THE FACTORY ON TIME. WHAT WAS NEEDED, IN EFFECT, WAS A WHOLE NEW ATTITUDE TOWARDS WORK ITSELF.
- 9. WHILE FRANKLY ACKNOWLEDGING THAT THERE ARE YOUTHFUL FLEMENTS IN THE SOVIET UNION WHOSE "NARROW-MINDEDNESS" AND SELFISHNESS GIVE CAUSE FOR CONCERN (AND FOR RE-EDUCA-TION), ANDROPOV SINGINGLY DECLARES HIS FAITH IN THE YOUNGER GENERATION AND ENDORSES NECESSARY GENERATIONAL CHANGE. "EACH NEW GENERATION IS SOMEHOW STRONGER THAN THE PREVIOUS ONE, KNOWS MORE, AND SEES FURTHER." A POINTED REFERENCE ANDROPOV MADE TO THE BENEFICENCE OF SOVIET OLD-AGE PENSIONS WOULD SEEM TO BE AIMED AT ENCOURAGING OLDER CADRES TOWARDS HONORABLE RETIREMENT SO AS TO ALLOW ROOM FOR NEW BLOOD. WHETHER THE GENERAL SECRETARY HAD CERTAIN OF HIS ELDERLY AND AILING POLITBURO COLLEAGUES IN MIND BY THESE REMARKS (VIZ. CHERNENKO) IS A MATTER OF CONJECTURE. MORE LIKELY, PERHAPS, HIS INTENT WAS TO ENCOURAGE THE PROMOTION OF YOUNGER, TALENTED AND VIGOROUS PARTY MEMBERS AT THE FORTHCOMING LOCAL PARTY FLECTIONS.
- 10. WHILE ANDROPOV AVOIDED AN IMPLICATION OF PURGE OR

RETRIBUTION AGAINST INCOMPETENT OFFICIALS IN HIS PERSONAL REMARKS, THE STAGE-MANAGED SPEECHES OF PARTY VETERANS MADE THE POINT INDIRECTLY: ONE VENERABLE OLD PARTY MEMBER INVOKES HIS MEETING WITH LENIN TO RECALL THAT LENIN NEVER ALLOWED ANY LENIENCY TO ANYONE WHO ACTED WITHOUT REGARD TO THE PARTY'S INTEREST AND TO ASK THAT SIMILAR STRICTNESS BE SHOWN TO THOSE WHO THINK ONLY OF THEIR PERSONAL WELL-BEING. TO PROLONGED APPLAUSE, ANDROPOV REPLIES "THIS WE PROMISE YOU."

11. ANDROPOV'S SPEECH COVERED ALMOST THE ENTIRE FIRST PAGE OF PRAVDA WHICH ALSO CARRIED PHOTOS OF THE MEETING.

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FOR AGRICULTURE PASS ELECTRONICALLY FOR FAS: ITP-AAEE, ERS E.O. 12356: DECL: OADR TAGS: ECON, PGOV, UR SUBJECT: ANDROPOV ON ECONOMIC CHANGES: MEASURE SEVEN ANDROPOV APPEARS ALERT AND SITTING ERECT WHILE DELIVERING HIS REMARKS WITH FIRMLY CLASPED HANDS. ODDLY, OTHER CENTRAL NEWSPAPERS CARRIED A DIFFERENT PHOTO WHICH SHOWS ANDROPOV IN A NOTICEABLY LESS ALERT POSITION. ANDROPOV IS FLANKED BY ROMANOV AND GORBACHEV WITH ZIMYANIN, RYZHKOV AND KAPITONOV OCCUPYING THE END SEATS. VREMYA DEVOTED A HALF HOUR TO THE MEETING WHICH WAS ILLUSTRATED ONLY BY A STILL OF ANDROPOV AND THE OTHER SECRETARIES AND OTHERWISE CONSISTED OF THE READING OF ANDROPOV'S SPEECH BY AN ANNOUNCER.

12. POLITBURO MEMBER AND CC SECRETARY GORBACHEV ACTED AS MASTER OF CEREMONIES FOR THE MEETING, A REFLECTION, NO DOUBT, OF HIS RESPONSIBILITY FOR CADRES. HIS PRESENCE SEEMED PARTICULARLY APT, HOWEVER, IN VIEW OF ANDROPOV'S STRESS ON GENERATIONAL CHANGE; AND SERVES TO REINFORCE THE IMPRESSION THAT HE IS BEING INCREASINGLY GROOMED AS AN AUTHORITATIVE SECOND TO ANDROPOV (REF C). FELLOW POLITBURO MEMBER AND CC SECRETARY ROMANOV. WHO WOULD DOUBTLESS ALSO CLAIM TO BELONG TO THE SUCCESSOR GENERA-TION, WAS PRESENT ONLY AS AN OBSERVER. HIS APPEARANCE AT THIS MEETING, IN CONJUNCTION WITH KAPITONOV AND RHZHKOV, WOULD, HOWEVER, SEEM TO REINFORCE THE VIEW THAT ROMANOV HAS A BROAD ECONOMIC PORTFOLIO WITHIN THE SECRETARIAT, NOT ONE LIMITED TO DEFENSE INDUSTRY AS A SOVIET SOURCE RECENTLY INDICATED. ZIMMERMANN

MEMORANDUM

NATIONAL SECURITY COUNCIL

October 20, 1983

ACTION

MEMORANDUM FOR ROBERT C. MCFARLANE

FROM:

JOHN LENCZOWSKI JC

SUBJECT:

Response to Letter on Soviet Economy

Attached is a response (Tab I) to a letter (Tab II) sent to Judge Clark on the Soviet economy.

Norm Bailey concurs.

RECOMMENDATION

That you sign the response at Tab I.

Approve_____ Disapprove____

Attachments:

Tab I Response to Mr. Loebl
Tab II Letter from Mr. Loebl

Eugen Loebl

170 West End Avenue

New York, N.Y. 10023

212-580-2535

1

Mr. William P.Clark
Assistant to the President for
National Security Affairs
The White House.
Washington D.C.

Dear Mr. Clark,

Recently a "study" of economists of the Soviet Academy of Science has been published. It is a domument of farreaching importance.

Our papers did not follow-up this statement .They no doubt, know all the fact, but all toloften miss the understanding how the Soviet system works and of its subtlities.

Having been connected with the system for many years I hope that I do under stand the hidden forces behind this document.

I am taking the liberty of enclosing a kind of position paper, an analysis of the background and some conclusions as well optons for a concrete policy towards the Soviet Union.

I would be only too pleased to be at ytour disposal or that of your aides.

Sincerely

Eugen Loebl

THE WHITE HOUSE WASHINGTON

Dear Mr. Loebl:

Thank you very much for sharing with us your analysis of the study produced by the economists of the Academy of Sciences in Novosibirsk. I have taken the liberty of sharing your analysis with my specialists on Soviet affairs. We appreciate the importance of the Soviet economic study and its vast implications and we continue to watch closely for the kinds of changes such a report may portend.

With many thanks again for your ideas.

Sincerely,

Robert C. McFarlane

Mr. Eugen Loebl 170 West End Avenue New York, New York 10023 One of the most remarkable documents has been issued recently in the Soviet Union. It is a "study" of Economists of the Academy of Sciences in Novosibirsk. This document does not reveal anything that would not be known in the West; however, it is the fact that it has been circulating as a confidential paper among Soviet Officials that makes this document so important.

This memorandum of the Academy of Sciences could not have been circulated among officials without explicit approval of the Politbureau. Such a memorandum would not have even been written without orders from the highest echelon. It is a devastating criticism not only of the present state of affairs, but of the system of state management that was shaped "roughly five decades ago"; meaning by Stalin. And this system has continued under the leadership of Malenkov, Kruschev, Brezhnev and Andropov, himself.

Let us first speak of the document as quoted in the New York Times of 5 August 1983.

" The basic features of the existing state system of economic management were shaped roughly five decades ago. This system has been repeatedly amended, renovated and perfected, but it has never undergone a qualitative transformation that would reflect basic shifts in the forces of production.

The main peculiarities of the system of state economic management include: a very high degree of centralization in economic decision making; the highly regulated character of planning; the inhibition of market forces; a discrepancy between the prices of consumer goods and production costs; a centralized system of allocation of materials and supplies to all enterprises; the centralized regulation of all forms of workers material incentives; overlapping authority and resulting confusion among ministries and agencies; the limited economic authority and, as a result, the limited economic liability of enterprises for the results of their economic performance, and restrictions on all forms of unregulated economic activity in the sphere of production, service and distribution.

All these elements reflect the dominance of administrative methods of management over economic methods, and of centralized methods over decentralized ones.

Within the framework of that system, people were regarded as "cogs" in the economic mechanism, and they behaved accordingly - obediently (passively), like machines and materials. "

This document further admits what kinds of workers the Soviet system has created. As a whole, the system is based on the leading role of the working class. This admission is of crucial political importance:

"The type of worker that such a system cultivates not only falls short of the needs of developed socialism but also fails to match the requirements of modern production. His common traits are a low labor and production discipline, an indifferent attitude to work, a shoddy quality of work, social inactivity, a well-pronounced consumer mentality, and a low code of ethics.

Also of worth of mention are such widespread activities as pilfering, all sorts of shady dealings at state expense, the proliferation of illicit business, and a taste for renumeration regardless of the results of work. "

Finally, it speaks of social tensions in the economy. Such formulation means, in Soviet terminology, something different than in ours. The economy is, in terms of Marxism, the basis, the substructure of the society. It determines the decisive properties of the socio-political system.

" Thus we believe that the most important source of social tension in the economy is not just a lack of harmony, but an actual contradiction of interests among vertically dependent groups, workers and team leaders, team leaders and managers, managers and ministers. "

Thus we must see in this criticism not merely an attempt to change the economy but to deal with the very basics of the system as such.

It seems, therefore, to be worth while to analyze this document. Neither should we expect that the farreaching changes will come about easily, nor that nothing will happen at all, and definitely not that nothing can be done from the angle of the United States and the West generally.

To understand the importance of this event, we have to remember that such a document has already been published, albeit some 20 years ago in Czechoslovakia by the Dubcek team.

It was exactly the some criticism and an attempt to introduce changes. Dubcek's slogan ocialism with a human face." was actually a criticism of Stalinist Soc alism with human "cogs". The Soviet document also refers to a ind of humanization, to end the system where humans are merely objects of planning like machines and commodities are; very parallel to what was intended by Dubcek.

The Soviet answer was the military occupation of Czechoslovakia. Though all of this happened many years after Stalin's death, and after he had been revealed as a "fascist", a change of the command economy even with very modest reforms was unacceptable to the Soviets under Brezhnew.

Now the Soviets themselves suggest the absolute necessity to some radical, however not specified, reforms.

The reform movement started before Dubcek came to power. However it had the support from one part of the Politbureau. The reform movement was not initiated by the dissent of the population, but began at the top. Members of the executive committee, of both the Politbureau and the Government, were frightened by the decline of the economic performance. Their motivation was to save the communist system, to improve the economic situation without even the slightest desire to abandon the basic principles of Marxism, or to turn away from the Soviet Union to join the West, or even to become neutral. Only on the periphery of this movement was some criticism of Marxism, and especially of the Soviet system, without influencing the whole reform movement.

The lesson from this development is that we can expect changes, even radical changes from the top. It is less likely that the dissent of the masses would endanger the Soviet system, or that the party and government would bend under pressure from the bottom. The power of this type of dictatorship is sufficient to crush any militant opposition. Such opposition would only serve to unify the Politbureau and Party Leadership and the millions who have real vested interests in maintaining the regime. Further, we should not underestimate the fact that any reform movement must be based on organized power, and this is only the Party. There is no one person, neither in the Soviet Union nor in any of its Satellites, that would have any concrete program. But even if they would be able to replace the present system with a more humane system, this requires even if it sounds paradoxical, centralized power, a kind of "enlightened dictatorship". Any other alternative would lead to absolute chaos and to a revival of Stalinism. Thus, we must be realistic and expect that changes in this type of dictatorship will somehow come from the top. This is somehow the pattern of this genotype. It is naturally possible that once such reforms start, they could, under the pressure of the population, take over and go further than originally envisioned. This will always be a serious concern of the reformers within the highest echelon, and must inevitably create a conflict situation between those who assume that reform can be controlled and those who are afraid of a kind of selfmotion and dynamism of any movement towards more democracy.

The fact that such an important document has been written and circulated reveals; first, that, as already mentioned, it must have been sponsored by some powerful members of the Politbureau. In my mind there is no doubt that it has been done by Andropow, himself.

On the other hand, this document has not been officially published as a statement of the Politbureau. This reveals that there was no consensus within the Politbureau. Generally speaking, the phenomenon of the Monolith of the Politbureau is one of the myths the Soviets succeded in implanting in the minds of somany Western politicians.

a huge bureaucracy, the party itself is, the banking system. the ministries, and so are the enterprises. They are the "Sorcerers apprentices". The Party has created a bureaucracy and now the very existence of the bureaucracy endangers the existence of the system. The "study" does not condemn bureaucracy, as such. It does not require a weaker position in the Party or the planning systems bureaucracy. It is more interested in creating a conflict within the bureaucracy of the ministries and of the managements. an inbuilt conflict between the ministries and the enetrprises. The economic ministries get the main target figures from the State Planning Committee and are responsible for the fullfilment of the target figures broken down to each of the ministries that run each sector of the economy. The managers of the enterprises are interested in low target figures for the production, but high target figures for financial funds and labour allocation. This enables them to full-fill the plan, the basic criterium for any kind of evaluation. On the other hand, the ministries are interested in exactly the opposite. They want to fullfill the plan by high production target figures and low financial fund and labour allocations. On the other hand there is the common interest of both. This is the bureaucratic regime. is convenient without any risks and worries. On top of that, it secures a certain social status. The "study" recommends the creation of a situation in which the enterprises will rebel against their bosses . The bureaucracy of the operative ministries and many institutions belonging to them, i.e. the main body of the bureaucracy must be weakened. The same applies to the bureaucracy of the enterprises. On the other hand, the "study" recommends the bureaucracy of the planning system is supposed to be strengthened. There is no attempt to weaken the planning system, one of the poerbasis for the Party. The aim is to divide the unified bureaucracies of the ministries and enterprises and turn them into conflicting and counterveiling powers. The fight against bureaucracy is, even in the United States, a problem of great magnitude, despite the many checks and balances, and open democratic criticism. To fight bureaucracy in the Soviet system is really a gigantic task. The "study" describes the decline of the Gross National Product that is now only 2.5%, while the growth of the population is 0.8%.

As a matter of fact, the GNP's real growth is much lower than the statistical figures show. The statistics of the GNP in the Soviet system encompasses everything that has been produced, even investments that are not finished or won't be finished, or proved to be unusable. It encompasses further, also, products good only for scrap, but even recycling of scraps increases the GNP. The more waste, the higher the GNP.

We have to take into consideration that the increase of mili ary expenditures generally, and such expenditures as connected with Afghanistan, etc, is also part of the GNP. Taking this into accordate growth of real personal income is less than the growth of the population. Thus, not only a decline of the absolute consumption-product but even to a greater degree, the relative-product is declining.

However, the military part of the economic problems are not at all mentioned, which is another indirect proof that behind this study are not Economists, but members of the Politbureau.

The burden of military outlays is, for any economy, very serious. But for such an inefficient economy it is tremendous. The expenditures for military purposes are, compared to the GNP, three times as high as the United States.*

The Soviet leadership must be aware that while its military power is the basis of its impact on the international scene, it weakens tremendously the whole socio-economic system.

This situation creates two kinds of pressures. One is to maintain its powerbasis in world politics. The other pressure is the dangerous consequences of the economic impact of such high military expenditures.

As long as the discussion will concentrate on mere reduction of overkills, the military aspects will have the upper hand and there will be no willingness to abandon the achieved positions. A real reduction of military power of the Soviet Union is, on this plane of negotiations, an illusion.

However, the pressure of the economy could be made use of towards a massive disarmament on a different plane of negotiations. At this stage, we should see a possible beginning to a new course in the Soviet Union towards some liberalizations. Further, we should be aware that it is by far not yet decided whether and to what extent it will materialize. Among the leaders there are people who would like to improve the economic performance with other means than liberalizations.

One of them is the intense activity of the KGB that we have witnessed in the past to acquire new technology, and thus improve the economic performance. The other would be to appeal to Detente and achieve an increase of credits to the whole block, and particularly imports of high technology. As the Soviets are typical technocrats, many of them still assume that technology can solve the problems, even with "cogs".

In my view, the West should be aware that any export of technology and any credits to any of the Warsawblock countries is, whether we intend it or not, a support of those who would like to maintain the "cog system" and weaken those who realize that the nonhumane system is inefficient and must be reformed.

*(Author's Footnote: Between 1963 and the Soviet occupation, I was director of the State Bank. I made a study of how much and in what way military expenditures are embodied in the civilian part of the budget. Military research education, health services, etc, was not listed under the defence higet. Costs of transportation charged to the military was much lower than that charged to industry. Also, trucks, building materials and other such items were charged with lower prices Raw materials used for military production were also subsidized. We figured out that military expenditures made more than 20% of the GNP. On top of that, the best experts in the country were employed with defense problems.)

The "study" reveals that there is an inner conflict and that whatever we do, we support one of the conflicting parties. It is an illusion that we may achieve by trade, a betterment of the relationship between East and West and avoid further confrontations. Trade with the East supports only the present system. That is the absolute enemy of the fre- world and first of all, of the United States.

On the other hand, we should not assume that those who oppose the "cog system" are our friends. They are our enemies as well. However, they advocate a policy motivated through selfinterest, that has the potential to lead to an isolation of the hardliners.

There is further an aspect that should be taken into consideration. If the West would make a proposition to the Soviets that would mean massive disarmament without loss of prestige, or would not change the power relationship between East and West, such a plane of negotiation could become attrative.

Taking into consideration the specific weight of economic consideration, some of the most burning economic problems could be solved in relatively very short time. In this connection we should not overlook that the Warsawpact countries are an economic burden, and as the Polish events demonstrate, a political burden as well.

Any political proposition must take this much into consideration as the policy of the Soviets expressed in the Brezhnev doctrine, and their political ambitions as a world power.

A new plane of negotiation could be to create conditions of peace based on the following ideas:

In the Atlantic Charter, the representatives of the United States, Great Britain, and the Soviet Union declared that the future of the world must be based on the principles of self determination as the only guarantee to a lasting peace. As these principles have been violated in central and eastern Europe, the West built NATO and the answer was Warsawpact. But for the situation in central and east Europe none of these military blocks would have been built and neither West nor East would have to bring fantastic economic sacrifices involving the risk of mutual destruction. Let us apply the principles once accepted in the Atlantic Charter. Let the nations of central and eastern Europe decide their own fate, and whatever decision they make must be accepted by the world powers. After this has happened, dismantle NATO and WARSAWPACT and destroy all Atomic weapons. Though not all conflicts will be eliminated, the danger of war and of the unbearable economic burden would be elim: ated.

B. As both NATO and WARSAWPACT would be dismantled, it will ot offer any unilateral advantage to either West nor East.

Such a political offer would be reinforced by the economic pressure that admittedly exists. As a matter of fact, this policy has been embodied in the election program of the CDU/CSU and is de facto the program of the government of the Bundesrepublik and would contribute to the unity of the Atlantic Alliance.