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CENTRAL INTELLIGENCE AGENCY

*Memorandum*



SOVIET POLICIES: THE NEXT PHASE

18 March 1963

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CENTRAL INTELLIGENCE AGENCY

MEMORANDUM: Soviet Policies: The Next Phase

SUMMARY

1. A number of recent developments suggest that the Soviet leaders have completed a post-Cuban policy reassessment and decided on a general line of action. The new Soviet course rests on decisions to defer once again any redistribution of resources away from the defense effort to consumer goods programs. Moreover, military programs may have been adopted which would affect investment for general industrial expansion and thereby slow general economic growth.

2. Such decisions should have important foreign policy implications. There is a recognition that a "pause" is required in international affairs while the Soviets attempt to build up their military strength. During this phase the internal stress on sacrifice will militate against any resumption of detente, any imputation of good intentions to the West.

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MEMORANDUM: Soviet Policies: The Next Phase

1. Khrushchev has given the Soviet people a gloomy forecast of their lot and of Soviet prospects abroad for some time to come. His election speech of 27 February and subsequent private remarks to Western diplomats suggest that a post-Cuban policy reassessment has been completed and a general line of action decided.
2. The new Soviet course rests on the leadership's "difficult" decisions concerning the serious problem of allocating economic resources. As in 1961 and 1962, Khrushchev has been forced once again to defer any attempt to redistribute resources away from the heavy industries supporting the defense effort to the consumer goods program. He has justified this on the ground of an ominous international situation and the increasing importance of keeping up in the arms race, lest the "balance of power" shift decisively against the USSR. In his speech the Soviet premier acknowledged that the "national economy" is growing more slowly because "reality" dictates a concern for defense requirements involving "enormous sums" and "enormous resources." In an unusually frank statement Khrushchev said that maintaining this defense program "diminishes, and cannot but diminish" the prospects for the consumer.
3. Khrushchev is still committed to a "balance" between the competing sectors, but for the present the proponents of defense clearly have won the struggle with the advocates of more investment for agriculture and other consumer-oriented sectors. How long this solution will prevail is not clear, but Khrushchev implied a long-term effort was required to improve the USSR's military position. The arms race will "obviously continue" for a long period; old armaments will have to be renewed "all the time."

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The Soviets cannot afford to underestimate military requirements, as Stalin did in 1941, but must be prepared for the decisive "initial period" of the war, to strike a retaliatory blow "on the very first day."

4. The general direction of Soviet economic and military policy seems to have been defined, but the precise implications are not clear. The Soviet economy is capable of bearing the defense burden envisaged by Khrushchev, but at the cost of again postponing any substantial rise in living standards and perhaps risking further decline in the future rate of industrial growth. When last year's mediocre agricultural results are considered along with the reaffirmation of defense priority, it is probable that there will not be a significant improvement in living standards in 1963. Beyond the question of consumption, Khrushchev's remarks raise the possibility that military programs have been adopted which will affect investment for general industrial expansion and thereby slow general economic growth.

5. Khrushchev's statements have an air of finality, but he probably came to these decisions reluctantly; the problem of resource allocation will continue to plague the leadership and it is probable that sooner or later this question will be reopened. Indeed, on 3 March a top planning official published an article repeating Khrushchev's earlier argument for a shift of resources away from heavy industry toward consumer-oriented sectors. If consumers react to future disappointments with manifestations of discontent on the scale of 1962, this line may acquire greater force. However, the proponents of defense, having prevailed again in the policy debates, are in a strong position to win future arguments and even put forward new demands.

6. The overall impression given by Khrushchev is that the developments of the past three years have finally brought him to abandon for the indefinite future his 1960 hopes for easing the military burden on the economy through streamlining the military establishment. While we still think Khrushchev may one day reopen the question of force reductions, he clearly does not think it feasible to push any drastic measures of this sort at this time. This speech and his private remarks are clues that the Soviets have found no inexpensive weapons system or low-cost strategy to satisfy their military requirements.

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7. That Khrushchev has opted for such a program should have some important implications for Soviet foreign policy. First, it reflects a further decline in confidence and expectations, already increasingly apparent in the last two years and, in our view, an important part of the motivation for the Cuban venture. Second, there is the recognition that a "pause" is required in international affairs, while the Soviets attempt to repair their position. Third, there is the appreciation that real military strength is still the vital ingredient in the balance of power. Fourth, the internal stress on sacrifice tends to militate against any resumption of detente, any imputation of good intentions to the West.

8. The Cuban crisis has, then, been a turning point. In effect, Khrushchev seems to have decided that the "world relation of forces" no longer supports the broad political offensive he initiated in 1957. His fundamental calculations about "contradictions" in the Western alliance, the growth of Soviet economic and military power, the cohesiveness of the socialist camp, and the outcome of the revolution in the underdeveloped world have proved erroneous in some degree. Confronted with these failures, Khrushchev could have chosen to attempt some accommodation with the West, seeking settlements of some contentious issues. This would gain time to concentrate on Bloc and internal problems and to build up Soviet arms, and would probably contribute to the strains in the Western alliance as the Soviet threat seemed to recede. But Khrushchev seems to have ruled out this approach, at least for now. Instead, he has justified his economic and military policy on the basis of a threatening international situation, which suggests that he intends to invoke the "foreign devil." Thus the present phase is likely to be one in which the atmospherics of propaganda will not be congenial to East-West negotiations.

9. This does not mean, however, that hostile atmospherics will be accompanied by aggressive actions. There is nothing in the lessons of Cuba which warrants an optimistic Soviet view of the risks in forward action. On the contrary, the one point which comes through clearly in Soviet pronouncements is a painful appreciation of US power and determination. Whereas Khrushchev earlier seemed to accept new chances for direct encounters with the US, first in the Congo, then in Laos, Berlin and Cuba, he now

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appears sobered by the thought that the US was on the verge of attacking Soviet forces in Cuba, and appalled at the options of having to counterattack or accept humiliation. The chances of Khrushchev making a second such dangerous misjudgment have been considerably reduced, even though the pressures which must have contributed to this initial miscalculation remain operative.

#### Berlin

10. It is only logical that the end of this offensive phase should be symbolized by the shelving of the Berlin issue as a more or less continuous crisis. This is substantially what Khrushchev did in his speech of 16 January. His subsequent remarks reflect little optimism about the possibility of a negotiated settlement advantageous enough to justify a demonstrative end to the Berlin crisis. Rather it appears that Berlin will remain as an issue for agitation and propaganda, if only to sustain the general contention that the international situation remains tense. Moreover, without a settlement the Soviets retain the opportunity to make some minor encroachments on the Western position, to make occasional new moves to aggravate current Western differences, or to seek better terms for a settlement if governments change in Bonn or London. Finally, if the current respite is conceived of as a temporary retreat, then Berlin will still be a crucial issue to test Western resolve and prove Soviet power in new circumstances.

#### Disarmament

11. Talks on disarmament and nuclear testing will probably continue for a time, but there is not likely to be a great Soviet interest in serious dealing on disarmament. It is even possible that the USSR will eventually disrupt the Geneva negotiations, as they did in 1960, when they feel the need for a further demonstration of the ominous state of world affairs. The Soviets are averse to negotiating when they regard their position as inferior, or when they cannot bring outside pressures to bear. The next phase of Soviet disarmament policy, therefore, is likely to be confined to agitation of those partial measures which would inhibit Western defense and disrupt NATO planning for the sharing of nuclear weapons.

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12. As to the test ban, the Soviet position has apparently hardened since Khrushchev's 19 December letter to President Kennedy. Moscow professes to have understood that the US was prepared to settle for 2-3 inspections. But more important than the actual number of inspections were certain implications that a test-ban agreement would have at this time. The present unyielding Soviet stand is based on the judgment that, with the Chinese charging a sell-out and the Soviet populace being called upon for sacrifices, this is no time to encourage hopes for an East-West detente. In addition, the Soviets probably realize that the time has passed when a three-power test ban would pose a real obstacle to the spread of nuclear weapons. Finally, the Soviets may now see the need to maintain a free hand to test again.

#### The Underdeveloped Areas

13. If the Soviets now expect to make no major breakthrough in Europe, then it will become more important to compensate elsewhere in the world, or at least to make sure that further losses are quickly and effectively contained. The underdeveloped areas will continue to be a crucial arena in the contest with the West, but it is becoming more and more apparent to the Soviets that prospects for further significant gains in any near term are very mixed indeed. The Soviets are finding that it requires full-time effort just to keep the influence they have, let alone develop new opportunities. The Sino-Indian dispute demonstrates that a non-aligned country, when it is subjected to pressures by a communist country, can quickly develop strong pro-Western attitudes; the events in Iraq suggest that even the most extensive Soviet influence is subject to rapid deterioration, while in Guinea a process of erosion of Bloc positions is already well along. All this is at a time when the need to mobilize various international combinations against the West is greater than ever.

14. The experience of the last six or seven years has taught the Soviets that most nationalist leaders are reluctant to bring local Communists into their governments and are frequently ready to turn on them with repressions. The Soviets lack promising alternatives, however, since in very few

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cases are the local parties strong enough to attempt a seizure of power on their own. The USSR's recent shrill responses to Iraqi developments and recent denunciations of anti-communist moves in Algeria and Tunisia suggest current frustration on this score. Thus in some cases the Soviets may concentrate upon building local communist strength, even if this risks some injury to their relations with the nonaligned governments. Strong factors in this approach may be the threat of Chinese Communist proselytizing among the parties of underdeveloped areas, and Cuban ambitions to lead the revolution in Latin America.

### The Bloc

15. The internal policies enunciated by Khrushchev, and their implications for foreign policy, ought to be cause for some satisfaction in Peiping. The Chinese would welcome Soviet adoption of a harsher tone toward the West and a turning away from serious negotiations. Nevertheless, we doubt that anything better than a superficial and temporary truce could result from the present exchange of proposals for a bilateral meeting. The Chinese editorials of 27 February and 4 March, which followed receipt of the Soviet letter, make it clear that Peiping is determined to break the Soviet hold on the international communist movement; the more the USSR adopts policies which resemble those urged by China, the more China is likely to press further demands (e.g., acceptance of Albania, rejection of Yugoslavia) and assert its own leadership of the world revolution. Thus, even though the Soviets will in the coming period see an advantage in quieting down public contention and may proceed toward a meeting, Chinese terms are so high, and Chinese polemics so fundamental and bitter, that at some point the Soviets must resume the offensive.

### Some Factors of Uncertainty

16. Even if Khrushchev has settled on a policy line for the present phase, it could be completely upset by several factors. First, there is the Cuban problem: as long as the Soviets maintain their military presence in some size in Cuba, they are vulnerable to American pressures, which for Castro's sake and the sake of their own failing prestige they are obliged to resist. If the Cuban crisis should flare up again, it would overshadow all other East-West issues and have important effects on other aspects of Soviet policy.

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17. Second, the decision that the consumer programs must continue to give way to military needs stores up problems inside the Soviet Union which will probably require new and perhaps even more painful reappraisal in the future. There is a wide range of internal issues -- de-Stalinization, handling of intellectuals, resource allocation, party-military relations, and the party-state economic reorganization-- which may add up to considerable turmoil within the top leadership. These divisions probably have not been fully resolved by recent decisions and the chances are good that Khrushchev will continue to be under conflicting pressures, and that Soviet policy may correspondingly fluctuate.

18. A third source of further policy shifts is developments in the Western alliance. An aggravation of divisions in Europe and between Europe and the US will encourage the Soviets to revive their hopes and pursue more actively the exacerbation of differences in the enemy camp. At a minimum, the present degree of disarray probably already constitutes an argument in Moscow against any substantial "pause" in Soviet policy.

19. Khrushchev's present course appears to be a long, hard pull, bound to increase a sense of desperation and frustration. There remains a possibility that these pressures will force the Soviet leaders to reconsider the advantages of some accommodation with the West. But the danger also remains that Khrushchev will again be driven to break out of this entanglement by some audacious move abroad, even though this might appear risky or foolish.

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