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The Economic Cost to the USSR of Intervening in Poland

An Intelligence Assessment

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An Intelligence Assessment

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The Economic Cost to the USSR of Intervening in Poland ([redacted]

Key Judgments

The economic costs to the USSR of imposing its own regime on Poland could be quite substantial. The security interests at stake, however, are so fundamental that the Soviet Politburo probably would not be deterred by the costs. [redacted]

In Soviet calculations, these costs could include at a minimum:

- Supporting a crippled Polish economy for at least a few years to the tune of several billion dollars per year.
- Perhaps providing an occupation force to maintain order in the event that Poland's Communist Party cannot regain a modicum of legitimacy. [redacted]

The Soviets would hope—and probably believe—that active resistance to a military intervention could be put down quickly and that discipline and austerity could be restored to Poland after a few years. But they cannot count on this. If severe disruptions should persist in the Polish economy, the cost to Moscow might well exceed $10 billion per year for several years. [redacted]

Based on its experience with the post-Afghanistan sanctions and its conviction that Western businessmen need Soviet markets and products and that West European governments are determined to preserve the detente relationship, the Politburo also is likely to believe that sanctions would not survive for more than a year or two. The principal impact on the Soviet economy would then be:

- An embargo-induced reduction in Soviet meat output of as much as 7 percent.
- A delay in certain important development projects requiring Western technology. [redacted]

Since meat is already in short supply and Moscow is acutely aware of its importance to the Soviet population, the results of a grain embargo would be especially significant. The delays in technology transfers would complicate decisions on the 1981-85 Plan but would have few lasting effects. [redacted]

The Economic Cost to the USSR of Intervening in Poland (U)

Background

As the Soviet Politburo weighs the arguments for or against military intervention in Poland, it must consider an array of political, military, and economic costs that such repression would incur. This memorandum examines the tangible economic costs as Moscow might view them. It considers the cost of assistance to a Soviet-installed government in Warsaw and the injury to the Soviet economy that might be caused by Western response to a military intervention. It does not attempt to assess the effect of intervention on Soviet military spending.

The Cost of Supporting Poland

The largest potential economic cost to the USSR arising from Soviet military action in Poland is the greatly increased requirement to shore up the Polish economy. While the Politburo probably expects that Polish armed resistance can be overcome quickly, it cannot be sure of the degree or pace of pacification. The effort itself, therefore, could be expensive and lead to continuing high occupation costs.

In the wake of intervention, production in Polish industry would decline rapidly, as morale and productivity fall to new lows. Critical bottlenecks would soon appear in essential services such as transportation and distribution. The Polish Communist Party, backed by its security services and Soviet troops, could force people back to work, but they could not compel them to be productive. The best the Soviets could hope for is that general passive resistance, with no one working hard and some instances of sabotage, would weaken gradually and practically disappear in two to three years. Mainly because of lower labor productivity, output might then decline for two years or so—perhaps on the order of 10 percent, as compared with the depressed levels of today. Widespread hoarding and the withholding of output by private farmers would add to the resulting shortages. But Moscow has to consider the possibility that the situation might be much more difficult—including the active hostility of much of the work force, a continuing struggle with a resistance movement, and a failure to install a credible government in Warsaw. Economic activity would then be severely disrupted and could decline sharply for several years—for example, by 15 to 20 percent.

The Soviet Politburo would then have to decide how much economic assistance to give in order to keep the Polish economy afloat. There is little question that Moscow would provide large-scale support for Poland to help rebuild some degree of political stability (as it did after intervening in Hungary and Czechoslovakia) and to minimize the effects of a crisis in the Polish economy on CEMA trade and economic development. The cost of such support would be high; it would include hard currency aid as well as increased exports to Poland of food, fuel, and raw materials, which are already scarce in the Warsaw Pact countries. While hard to assess, the overall cost could easily amount to more than $10 billion per year. Moscow would demand that other East European countries do their bit in helping Poland, but these countries are unlikely to offer much. They cannot spare the food and fuel, and they do not have the raw materials. And the USSR would be leery about sparking elsewhere the same kind of discontent that caused all of the trouble in Poland in the first place.

Moscow would also have to deal with the question of Poland's hard currency debt-service obligations, which will amount to about $13 billion in 1981 on a debt of $25 billion. The Soviets almost certainly would *not* assume these obligations because they would expect Western creditors to accept rescheduling to protect their investments. Nor would the USSR ask Poland to renounce the debt because of the implications for general East European creditworthiness. More than likely, a temporary moratorium on debt service payments would be declared, followed by Soviet-supported attempts by Warsaw to arrange rescheduling. The option of writing off the debt would be painful for many Western banks, leading them eventually to enter discussions with Poland.

Western Response to Intervention

The Politburo has good reason to expect that the immediate reaction of Western governments to open Soviet intervention in Poland would be stronger than the response to the intervention in Afghanistan. At a minimum, Moscow would have to deal with an embargo on new agricultural sales to the USSR on the part of major exporters and a suspension by Western governments of discussions of new industrial and energy projects. They might also expect the West to stop deliveries of grain and feedstuffs under existing contracts and exports of machinery and technology for high-visibility projects already under way. In addition, the supply of new credits almost certainly would be shut off. Moscow would think that most of the rest of its day-to-day trade with the West would continue regardless of sanctions. The leadership probably assumes that Western customers would not wish to risk a halt in Soviet energy and raw material deliveries.

How the Soviets calculate the cost of these sanctions depends critically on how long Western Europe, Japan, Australia, and Canada stick with sanctions. On the basis of the experience with their intervention in Czechoslovakia and Afghanistan, the Soviets may reasonably expect the support for sanctions to fade in a year or two provided that the Polish situation stabilizes. If the grain crops are large in the Northern Hemisphere next year, pressure on the grain sanctions would build rapidly. Soviet spokesmen would remind the Europeans and the Japanese especially of the benefits from trade with the USSR, both in terms of energy supplies and as a major purchaser of the products of depressed Western capital goods industries. None of the Western allies was enthusiastic about cooperating in the Afghan sanctions. From the start the major West European countries and Japan resisted tough economic actions. Government attitudes in part reflected strong commercial interests, some of which have invested substantially in supplying the Soviet market. They also reflected their enduring interest in reducing East-West tensions.

Grain. Following a second consecutive poor harvest, the Soviets probably anticipated importing 34 million tons of grain in calendar year 1981. In 1980 meat production is expected to fall by 500,000 tons, or 3 to 4 percent. Even with a normal crop in 1981 and no restrictions on imports, meat output could well decline by another 500,000 tons. An embargo on new sales by the United States, Australia, Canada, and the European Community would limit Soviet grain imports to perhaps 23 million tons. An embargo and a refusal to deliver under existing contracts would reduce Soviet imports in calendar year 1981 to around 14 million tons. In the worst case, the 20 million tons of grain forgone would be equivalent to 1.6 million tons of pork (carcass weight).

This would be a serious setback to Soviet consumption and the regime's livestock program. The impact on the Soviet livestock sector of denying 20 million tons of grain could be felt in lower meat production, reduced herd numbers, and lower animal weights in the inventories. Depending on the policies that Soviet planners follow, the effect on actual meat output will tend to be somewhat, or quite a bit, less than that implied by the pure "meat equivalent" of the denied grain. Nonetheless, the full embargo could easily push 1981 meat production down by another million tons (or 7 percent), as compared with a no-embargo situation.

Technology. The Soviets have concluded deals involving more than $2.2 billion worth of Western pipe and plant in 1980, including equipment for the Novolipetsk steel plant, the Sayansk aluminum smelter, the Baku/Astrakhan oil rig yard, and some chemical plants. They are actively negotiating contracts involving the West European–West Siberian gas pipeline (roughly $10 billion), Siberian coal and timber ($650 million), and additional large-diameter steel pipe. They are also interested in automotive facilities ($1-2 billion) and a number of oil development ventures (several billion dollars).

Delays and suspensions of negotiations on new projects would mainly affect the West Siberian gas pipeline project—putting the scheduled 1985 startup date completely out of reach. Few other major deals are now in negotiation, suggesting that in the 1981-85 Plan the USSR wants to concentrate for the time being on working off the backlog of unfinished large projects. An extension of Western sanctions to include an embargo on deliveries of machinery under existing contracts would have a much stronger effect than just a hold on new contracts. In some key industrial sectors, such as energy and metallurgy, these Western imports would be sorely missed. For example, a wide range of equipment and machinery has been ordered for the petroleum industry but not yet delivered. Failure to receive this equipment would degrade Soviet ability to lift crude from existing oilfields as well as delay efforts to map out new production areas. Delays in obtaining Western equipment (mainly pipe) would also mean that the recently announced goals for gas production in the 1981-85 Plan would have to be scaled back considerably, although much of the loss would be felt by European customers for the gas. (

Credits. Restrictions on Western lending to the USSR would not be a problem, although Moscow could no longer borrow at interest rates far below the world inflation rate. The USSR currently enjoys a financial cushion as a result of rising energy prices. If Western government-backed credit offers were withdrawn or if existing guarantees on signed (but as yet uncompleted) contracts were revoked, Moscow could still finance priority imports by drawing down the roughly $7 billion in deposits at Western banks and stepping up gold sales. While a continuing refusal by governments and banks to lend to the USSR would pose difficulties for the USSR as its trade balance worsened and its appetite for Western technology grew larger in the mid-1980s, the Soviets probably do not think such continuing restrictions are in the cards. They believe that the interest in the Soviet market is too great and can find evidence in the record of past sanctions to support their judgment.

Striking a Balance. After reviewing the range of possible Western economic responses, the Politburo would probably judge the impact of Afghan-like sanctions to be heavy but tolerable. At worst the USSR probably believes that it will have to accept a reduction in domestic meat supplies and delays in some important projects (particularly the West European–West Siberian gas pipeline) as the sanctions-related price of moving into Poland. They probably do not believe that warnings about lasting negative consequences for East-West commercial relations need to be taken at face value. For some elements in the Soviet economic hierarchy, the additional strain on the consumer, on energy development, and on supplies of metal, chemicals, and other products that depend on projects under way with Western assistance make appealing arguments against intervention in Poland. The position of the consumer would be markedly worse, and a few in the Politburo might worry about effects on morale and productivity. But the Soviet leadership would be unlikely to be deterred by even much larger costs from taking such repressive measures as may be necessary to hold the socialist empire together.

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