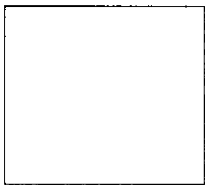


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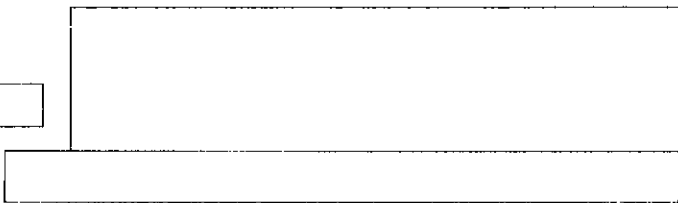
AGENDA FOR PRESIDENT-ELECT'S FOREIGN POLICY ASSESSMENT BOARD  
Friday, 21 November 1980

- A *covered* Iran-Iraq War
- B *covered* Iran Hostage Situation
- C *covered* Middle East
- D *covered* Afghanistan
- E *covered* Ethiopia
- F *covered* Central America/Caribbean
- G *covered* Poland
- H *covered* Soviet Economy
- I *not covered* Strategic Force Balance
- J *not covered* NATO-WP Military Balance
- K *not covered* Concluding Overview



Approved for Release by CIA  
Date Jan 2011

SECRET [redacted]



MEMO FOR DCI

19 Nov 1980

From:

Subj: DCI's Briefing to the President-Elect's Interim Foreign Policy  
Advisory Board, 21 Nov

*-Ph: 634-4905*

1. I received a call from Richard Armatage, of Dick Allen's staff, at 1045  
this morning regarding subject briefing. The board is comprised of the following:

Bill Casey, Chairman  
President Ford  
Senators Baker, Jackson, Stone and Tower  
Henry Kissinger  
General Al Haig  
Governor Clements  
Mr. Weinberger  
Eugene Rostow  
Don Rumsfeld  
George Schultz  
Jeane Kirkpatrick  
Ann Armstrong  
Edward Bennett Williams  
Dick Allen  
John McCloy

In addition to the board members there will be six staffers plus Dr Fred Ikle. Other than these there will be no "strap hangers". As of now, they are expecting only the DCI to present the briefing. Rick Armatage advised that if DCI wishes to include anyone else (e.g.; staffers) in his briefing entourage, Armatage should be given a call to clear them in. He also advised that many of these people do not hold current security clearances.

Turner in red felt pen  
12/1/80

SECRET

3 An issues:

Econ  
Stat  
NATO-WP

Soviet Economy (Fri Brief)

DCI Notes  
21 Nov 80

One of the most ticklish areas to estimate is impact of decline in Soviet economic well being on their foreign and military policy.

Indeed, Soviet economy is in more than the cyclical difficulties facing western economies: demographic; productivity; scarcity; management; agriculture

Soviet leadership will face difficult choices in next few years.

Could retrench from military programs, adopt less aggressive foreign policy and concentrate on solving fundamental economic problems.

Could feel hard-pressed and adopt a more aggressive foreign policy while still can.

Or - and perhaps most likely - they can muddle through without any major policy shifts.

Muddle through mean a progressively deteriorating economy with continued emphasis on military power at the expense of the Soviet consumer.

Raises issue of how far they can afford continue subsidize East European consumers who already are at higher standard of living than Soviets.

If, however, they reduce subsidies to East Europe and end up having to occupy even one Poland, could be economic disaster for them.

The size of the military programs we create, the amount of technology transfer we permit and the degree of our participation in the East European subsidy will all be important decisions of the new Administration that will impact on Soviet economy.

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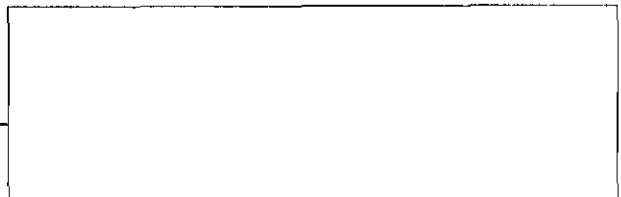
20 November 1980

Cost to the USSR Supporting Its Foreign Clients

The Soviet Union probably is incurring annual cost of about \$20 billion to support its foreign clients' states. These costs are the equivalent of about 1 1/2 percent of Soviet GNP. The largest costs are incurred in trade with Eastern Europe, which pays only a fraction of the world market price for Soviet oil, and receives prices well above world market levels from the Soviets for its sales of low-quality machinery and consumer goods.

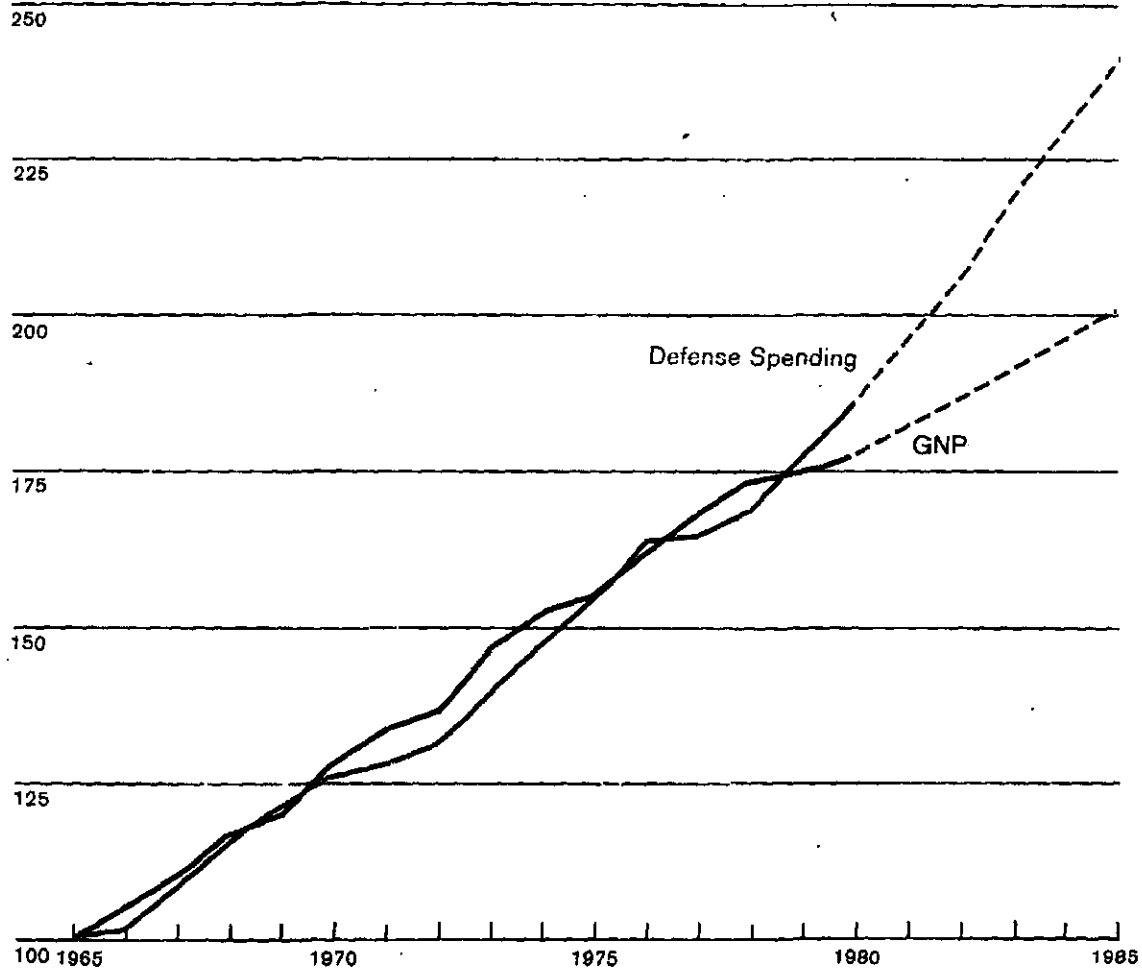
Cuba gets about \$3 billion a year in Soviet subsidies, of which about three-quarters consists of price subsidies on sugar exports and one-quarter on Project Aid. Soviet aid to Vietnam is on the order of \$1.5 billion, of which about \$1 billion is military aid.

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# Growth in Soviet Defense Spending and GNP

Index: 1965=100



612357

80-85 2.5%  
85-90 1.5-2.0%

[redacted]  
19 November 1980  
Revised

Emendations to the 17 & 18 November Drafts  
Underlined or Bracketed

The Soviet Economy Thrust Briefing Outline

- I. State of Economy - With the second largest economy in the world, the USSR can easily support the strategic programs just described. The Soviets have great crude economic strength:
- a wealth of natural resources
  - a labor force half again as large as US
  - unchallenged leadership dedicated to continuous growth in economic and military power.
- A. In contrast to US, Soviet growth strategy has stressed defense and heavy industry at the expense of consumption through:
- emphasis on modern capital-intensive technology in the favored sectors; labor intensive in the low priority ones.
  - spending heavily on education and science;
  - investing at high rates, especially in machinery;
  - importing advanced Western technology and equipment in exchange for raw materials.
- B. As a result Soviet GNP has risen since 1955 from about one-third to roughly sixty percent that of the US.
- Defense spending 40% higher than in US.
  - Investment somewhat greater than in US.
  - Per capita consumption level only one-third of US.
- C. Until recently military spending and GNP growth have increased apace--at about 4-5 percent per year. As a result, the defense burden has remained relatively stable. While costly, this burden has been considered tolerable by Soviet leaders.
- II. Changed Environment - Now, however, USSR is into a period of sharply reduced growth; bottlenecks in key commodities, especially crude oil, threaten to create economic disruptions and reduce growth rates still further. The basic problem is that the formula for growth used over the last 25 years--maximum inputs of labor and capital--will no longer work.

Graphic #1:  
Soviet-US  
GNP Comparisons

Graphic #2:  
USSR: Primary  
Energy Production

1970s; 1.5-2.0% during 1981-85.

- Oil is entering a no growth stage.

- Because the Soviets have pursued an all-out drilling program in West Siberia, oil production may be maintained in the next year or two at about the current level.
- This strategy, however, cannot be kept up for more than a year or two because depletion of easily accessible "high flow" reserves would force production down.

- Coal production and nuclear power program are also lagging badly.

B. The steady gains in consumer welfare which occurred during the 1960s and 1970s could be reversed.

- Back to back harvest failures--coupled with US export restrictions on grain--may cut per capita meat consumption, a key standard by which Soviet citizens judge their welfare, to the 1970 level in the coming year.
- Public grumbling among traditionally stoic Soviet consumers is at an all time high.
- While a repetition of the events in Poland is unlikely, the deteriorating food situation will, at a minimum, increase pressure on the regime and jeopardize hopes for raising work incentives in the near term.

Graphic #3:  
SSR: Growth  
of Working Age  
Population

C. Soviet Union must cope with increasingly severe labor shortage in 1980s.

- Additions to labor force in coming decade will be one-quarter 1970s.
- Most will consist of relatively less-skilled and less mobile Muslims.

D. Productivity is also slowing because of

- rising raw material costs, and
- greater distances to transport resources.

E. Soviet growth, in fact, has already started to slow precipitiously;

- As a result of the 1979 and 1980 harvest failures, agricultural output has fallen 10 percent during the past two years.
- Industrial growth has slowed sharply. Growth lowest since World War II.
- Overall GNP growth for last 2 years has averaged only 1% annually.

Graphic #4:  
Growth in Soviet  
Defense Spending  
and GNP

- F. As a result, the burden of continued defense spending at 4-5 percent per year is already beginning to rise and could increase sharply by 1985.

III. Policy Implications - This will force the Soviets to make some exceedingly tough policy decisions.

- A. In a nutshell, their problem is that increments to national output in 1980s will be too small to permit simultaneous achievement of:
- continued increases in defense spending at 4-5% per year,
  - more investment to problem areas such as agriculture, energy, and transportation,
  - support to Eastern Europe, and
  - continued modest increases in consumer welfare.
- B. Simply stated, something will have to give.

IV. Near-Term Policy Direction - While publication of the 1981-85 plan is still 2 months away, its basic direction is clear.

- A. Defense continues to receive top priority.
- We have no indication of a cut-back in any major defense programs. Floor space for the production of major weapons systems continues to grow rapidly.
  - Military related R&D programs are at all-time high.
  - While costly to economy, the USSR for political and military reasons continues to provide extensive foreign aid to non-communist LDCs. In 1979 Soviet military sales to non-communist LDCs totaled \$8.8 billion and new economic aid commitments stood at \$2.6 billion.
  - Leadership speeches indicate they view the international situation as the worst in 15 years and anticipate they will have to deal with a substantial buildup in NATO forces.
- B. Because we believe Soviet defense effort will retain its priority in near term, the bind on investment will become increasingly tight.
- C. Moscow will pay increased lip-service to consumer needs, but no major reallocation of resources toward consumers is in the offing.

V. Soviet Economic Relations with Eastern Europe and the West - Because of their domestic economic problems, we have no indications that Moscow intends to change its economic dealing with Eastern Europe or the West.

- A. For years Soviets have been trying to reduce the cost of



maintaining their hegemony over Eastern Europe by reducing their trade subsidies.

- In light of events in Poland, however, Moscow seems intent on providing increased economic aid--at least in short-term--to tide them over.
- A strong hard currency position allows them to do so.

B. Moscow also needs, more than ever, access to Western technology and equipment.

- The best example is USSR-Western Europe gas deal. Largest deal ever with West (\$10 billion in potential equipment sales).
- The Soviets continue to seek equipment and technology, and want to renew the US-USSR long-term grain agreement.

- Chances are that in the next few years, Moscow will be unable to acquire more than two-thirds of their grain import needs from non-US sources.
- The Soviets also have indicated they prefer sophisticated US technology and equipment where possible. They continue to seek, for example, US compressors for their gas pipelines rather than somewhat less advanced ones from Western Europe.

C. Nevertheless, as shown by Afghanistan, Soviets are quite willing to sacrifice any benefits from US trade for what they perceive as overriding political or military goals.

- Indeed, Soviets remain sanguine that they can elicit trade agreements from Western Europe even in the face of US opposition.

VI. Future Alternatives - Over the next few years, Moscow probably will be unwilling to undertake any major reallocation of resources, or risk changing the current system of centralized control.

- A. The current leadership seems to be marking time. It prefers tinkering at the margins; alternatives are too risky.
- B. During the early 1980s, however, a change in leadership is likely.
  - Brezhnev is in poor health.
  - Most of those who hold key positions are in their 70s.
- C. Even a new leadership would be hard pressed in the short run to make changes.
  - They would need time to consolidate power.

- They might reason that by 1990s major difficulties will pass.
- D. We do not think the strategy of "marking time" is tenable in long run; Soviet economic problems are too severe.
- E. As the problems become more acute, Soviet leaders could impose more austerity on the economy to support military spending.
  - Consumption would suffer greatly.
  - To garner public support, Moscow would likely evoke an image of heightened danger from West or China
  - This policy could also probably mean less reliance on economic relations with West and less tolerance toward EE.
- F. Alternatively, a younger set of leaders, less committed to the status quo, might view a change in resource allocation policy in favor of consumers as a more viable way of maintaining "super power" status.
  - Even so, a major shift in priorities away from defense would require the convergence of:
    - economic problems at home severe enough to raise questions concerning internal political stability.
    - an international environment that does not press the Soviets (e.g., resurgence of detente).
    - a stable Eastern Europe.