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Prospects for Accelerated Soviet Defense Effort

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Prospects for Accelerated Soviet Defense Effort

Summary

Over the past few months, Soviet officials, in both public and private statements, have attempted to communicate to the US Government Moscow's concern over a US military buildup and Soviet determination to respond to an expanding American defense effort. Recently, N. P. Lebedinskiy, a deputy chairman of the Soviet State Planning Committee (Gosplan), told [] that the Soviets are making eleventh-hour changes to their 1981-85 economic plan to accommodate "large increases" in defense activities. He said that these changes have taken place since February 1981, have required important revisions in plan targets, and are directed against planned increases in the US defense budget.

Any increase in the Soviet resource commitment to defense would occur within the context of an already large and growing defense effort. Over the past 15 years, Soviet defense expenditures have grown at a real average annual rate of about 4 percent. This growth has reflected increasing resource commitments to all of the military services and missions. On the basis of current military activity, we expect Soviet defense spending to continue growing through 1985 at about this same rate.

If the Soviets are adjusting their forthcoming five-year plan to accommodate "large increases" in defense activities, they could in the near term increase the production of selected military systems already in or about to enter production; in the extreme, they could resort to industrial mobilization. Over the longer term, the Soviets could increase investment in defense industries to augment their capacity to produce military systems in the mid-to-late 1980s and add new development programs to those already planned.

We believe that adjustments to accommodate large increases in Soviet defense activities would be directed primarily against a perceived accelerating arms competition with the West. Since March the Soviets have apparently become less hopeful about the prospects of achieving arms

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control agreements with the United States and, therefore, more convinced of the need to prepare for the possible failure to reach new arms accords and to consider how to preserve Moscow's own military-strategic position. With this perspective, the Soviets would probably pursue a combination of near-term production increases for selected systems and longer term increases in investment and developmental activity to hedge against what in their view is an increasingly uncertain strategic environment.

If the Soviets pursued these options, defense spending would probably grow at higher rates in the mid-to-late 1980s and beyond. In the near term, investment in some civilian sectors would suffer. Cutbacks would occur mostly in such areas as consumer durables, services, housing, and machinery and equipment for the food and soft goods industries. Such cuts would worsen already poor prospects for improving labor productivity over the next five years and could increase worker discontent. Despite these consequences, we believe the Soviet leadership would be inclined to continue the current mix of cosmetic concessions, short-term fixes, and patriotic appeals and, if necessary, adopt repressive measures to ensure both continued growth of the defense effort and domestic control.

We are confident we would detect large increases in Soviet weapons development and production programs well before the resulting weapon systems became operational with Soviet forces []

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Prospects For Accelerated Soviet Defense Effort

A deputy chairman of the State Planning Committee (Gosplan), N. P. Lebedinskiy, told [] that the Soviets are making eleventh-hour changes to their 1981-85 economic plan to accommodate "large increases" in defense activities. According to Lebedinskiy, this change in allocations favoring the military has taken place since February, has required important revisions in plan targets, and is intended to counteract planned increases in the US defense budget. []

By virtue of his positions as a deputy chairman of Gosplan, a member of its collegium, and chief of its main computer center, Lebedinskiy probably would have access to aggregate defense spending data and therefore be knowledgeable about the impact of increased defense activities on various economic sectors. He did not describe the scope and magnitude of the increases, but it was evident to Lebedinskiy's interlocutor, [] that the increases he alleged the Soviets to be making were substantial.

Political Context

Over the past few months, Soviet officials, in public and private statements, have attempted to communicate to the US Government both Moscow's concern over a US military buildup and Soviet determination to keep pace with an expanding American defense effort. In addition, Soviet commentators have alleged that prospective increases in defense spending indicate that the United States has embarked on a policy course aimed at upsetting the existing strategic balance and at achieving military superiority, which, they stress, the USSR will not allow. In this connection, President Brezhnev emphasized in mid-June that the Soviet leadership "cannot shut its eyes to all this and cannot but draw appropriate conclusions for itself." He warned that "the Soviet Union will find a way to react rapidly and effectively to any challenge. We must do so." Also in June, Defense Minister Ustinov asserted that the USSR would not permit anyone to upset the established equilibrium of strategic-military forces in the world. He vowed that the USSR would give an "effective response" to any and all challenges in the arms race.

Thus, Lebedinskiy's words may have been intended to serve as a purposeful message to the US administration of Soviet resolve to compete, if

[] Lebedinskiy also claimed that he had recently been appointed deputy director of Gosplan for all economic planning. We have not been able to confirm this.

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necessary, in an escalated arms race and as an additional pressure tactic to prod Washington into resuming arms control talks.

Alternatives

Beyond these political aspects, Lebedinskiy's remarks may also have reflected some of the realities of the Soviet defense budget process and the direction of the internal debate over military requirements and economic policy during the 1981-85 period.

The shifts in resource allocation that his remarks imply are consistent with our understanding of the preparation of the 11th Five-Year Plan, which appears to have been particularly troublesome for Soviet planners. Planning difficulties were reflected in the plan's draft guidelines, which were published in December 1980 and approved at the 26th Party Congress in March 1981. These guidelines contained only half as much statistical data as the two previous plan directives. The omissions were especially pronounced in those activities most important but troublesome to the leadership—energy, machine building, metallurgy, agriculture, transportation, and consumer goods. Although the absence of concrete figures for key goals and conventional categories is consistent with the trend since the mid-1970s to reduce the volume of published data, it probably also reflected delay, uncertainty, and possibly conflict in decisionmaking.

Thus, the draft guidelines suggested that the 11th Five-Year Plan remained substantially unwritten beyond 1981 and that difficult problems of choice, priority, and policy had not been resolved by the leadership in several critical areas. Nevertheless, Lebedinskiy's remarks imply that, as of February 1981, the Soviets had made some preliminary decisions on defense funding that subsequent military lobbying disrupted.

If large increases in Soviet defense activities are causing adjustments to the 11th Five-Year Plan, as Lebedinskiy alleges, two alternative interpretations are possible:

- Because of poor economic prospects for the 1980s, the plan initially might have called for cuts in the growth of resources allocated to defense. In this case, Lebedinskiy's remarks could indicate that these cuts were subsequently restored to the military budget, returning growth in defense activities to historical levels.
- The military might have been successful in pressing for increases in Soviet defense activities that would be significantly above the historical growth level.

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There are a number of factors that weigh against the first alternative. In the first place, although the guidelines for the 11th Five-Year Plan contained fewer statistical data, they did reflect a continuing Soviet commitment to defense. The guidelines placed the greatest emphasis on the development of heavy industry and agriculture, with the highest growth targeted for those branches of heavy industry most closely tied to the military. Moreover, these targets indicated that there was room in the plan for continued growth of defense spending at historical rates. Although the draft directives contained much rhetoric on the need to boost living standards, unrealistic goals in consumer-related areas suggested that few near-term gains in consumption would be likely. Whatever anxiety the leadership may have felt about the worsening plight of consumers was not enough to cause a significant reallocation of resources in their favor.

Moreover, the preparation period for the 11th Five-Year Plan coincided with a number of events that would have created strong pressures against reducing growth in defense expenditures, and indeed probably gave added weight to military arguments for additional resources:

- After mid-1979, as the pace of work on plan preparation was increasing, Soviet hopes for SALT II ratification diminished and the Soviet view of the likely strategic environment in the 1980s probably became more threatening. During this period, Moscow also became increasingly concerned about the prospects for deployments of long-range theater nuclear forces (LRTNF) in Western Europe and about the improving US relationship with China.
- The invasion of Afghanistan in December 1979, which the Soviets viewed initially as a "limited" and "temporary" operation, has involved a major commitment of Soviet political and military prestige to a situation that has no short-term solution. Indeed, all indicators point toward a Soviet military presence there for the foreseeable future, a presence which will be a continuing impediment to improved East-West relations.
- The political and economic deterioration of Poland during 1980 proved particularly troublesome for the Soviets. It threatened Warsaw Pact effectiveness and caused new tensions in East-West relations.

Exacerbating these factors have been the announced military policies and increased defense spending goals of the new US administration. In proposing to double defense appropriations by 1986, the administration has indicated its intent to carry out a broad-based military buildup directed primarily against the Soviet Union.

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Any initial hopes the Soviets may have had in February for a speedy resumption of a SALT dialogue with the new US administration gave way in late March to increasingly strident attacks on the policies and intentions of the US Government. Soviet leaders appear to have become increasingly pessimistic about the prospects for arms control and improved US-Soviet relations, at least in the near term. In addition, Soviet officials have apparently come to question whether substantial results would be achieved from new arms limitation talks with the United States. Declining confidence in the SALT process to constrain US strategic programs probably has contributed to a Soviet belief that the USSR must consider how to protect and preserve its own military-strategic position.

This perception of a deteriorating international climate coupled with heightened distrust of US motives and strategic designs has almost certainly generated pressures within the Politburo to adjust its own policies and plans accordingly. It is in this connection, according to Lebedinskiy, that the military has been successful in gaining additional resources.

Defense Program Trends

The Soviets already have a large and growing defense effort. Over the past 15 years, Soviet defense spending has increased in real terms at an average annual rate of about 4 percent, and in 1980 it accounted for some 12 to 14 percent of GNP.² As the table shows, the result has been an impressive array of major weapons procured by the Soviet military over the past decade.

On the basis of current military activity—the number of weapon systems in production, weapons development programs, and trends in capital expansion in the defense industries—we expect that Soviet defense spending will continue to grow at about the long-term rate through at least 1985. We estimate that over 100 new or improved military systems are slated to emerge from development and enter production during the 1981-85 period, and that about the same number of older programs will be phased out of production.

² The estimates of Soviet defense spending and other economic aggregates and growth rates presented in this paper are made in terms of 1970 prices. Because of the peculiarities of the pricing system that the Soviets use, we know that their prices reflect real resource costs only in the years immediately following a major price reform. The last such reform began in 1966-67 and, because we believe it was fully implemented by 1970, CIA uses 1970 Soviet prices in all its analyses. If a more recent price base were used, the level of estimated expenditures would be higher, reflecting growth in the price levels of military goods and services. We are uncertain, however, of the impact of alternative price bases on the share of GNP going to defense. This impact would be dependent on the differential between inflation rates for defense and for GNP as a whole.

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Average Yearly Procurement of Major Weapons, 1971-80

	Average Number Per Year
Missiles	
ICBMs	210
MR/IRBMs	100
SLBMs	150
Strategic SAMs	6,820
Spacecraft	
	72
Aircraft	
Medium bombers	20
Tactical fighters	685
Strategic interceptors	215
Transports	60
Helicopters	935
Combatant Ships and Submarines	
SSBNs	5
Attack submarines	6
Major surface combatants	6
Minor surface combatants	60
Principal Land Arms	
Tanks	2,435
Other armored vehicles	4,050
Artillery	1,050

* Includes 1976-80 only. SS-20 deployment begun in 1977 after a hiatus in MRBM and IRBM deployments of more than a decade.



Opportunities and Reasons for Increases

in the context of preparing a five-year plan, "large increases" in the defense effort most likely would be related to increases in the production and procurement of military hardware. The record of Soviet defense

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spending between 1965 and 1980 indicates that the procurement of new weapons constituted about half of total defense spending and was the main factor driving it upward. Such increases could be effected by both short-term and longer term options.

Short-Term Options

Opportunities for immediate production increases could well be limited by chronic bottlenecks in the supply of components and materials. We know, for example, that the Soviets are having difficulty making timely deliveries of critical components to meet current production levels of strategic missiles. Soviet attempts to achieve even modest increases across a broad range of systems probably would encounter shortfalls in supplies of critical components and materials

For the short run, therefore, Soviet adjustments to increase military production would likely be limited to two courses of action:

- Modest increases in production rates for some selected systems already in or about to begin production. This option probably would not cause a significant increase in the growth of defense spending.
- Implementation of partial industrial mobilization. This is an extreme means of increasing production of critical weapons and equipment and is normally reserved for emergency situations. Prolonged industrial mobilization carries with it severe economic dislocations.

Longer Term Options

In the longer term, one way the Soviets could augment their capacity to produce military systems would be to increase investment in defense industries. This would reduce the availability of investment resources to other sectors of the economy during the current five-year period, and it would substantially increase production rates for systems slated for production during the mid-to-late 1980s. Increases in production, in turn, would drive up the growth rate of defense spending in the latter half of the decade and beyond

During the next few years, the Soviets could begin construction of new final assembly facilities in addition to those which had already been included in the draft five-year plan. Simultaneously, expansion of production capacity at key component production facilities could relieve chronic bottlenecks that currently limit increased production of many military systems. These added new facilities probably would begin producing during the late 1980s.

A second option for the long term would be to undertake new weapons development programs in addition to those already in train. This would

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increase the number of weapon options available to Soviet leaders in the long term, with only minor immediate impact on defense spending. Development programs do not begin to consume significant resources until full-scale engineering development begins several years into the program. Most new development programs initiated in the 1981-85 period would not enter production until the late 1980s or early 1990s and would, therefore, not affect the current five-year plan.

Planning Contingencies

Plan adjustments to accommodate "large increases" in defense spending could reflect Soviet planning against two eventualities: an anticipated accelerating arms competition with the West and the potential impact of the Polish crisis on Soviet security interests in Eastern Europe.

Recent Soviet commentary has linked together alleged Western efforts to subvert socialism in Poland and broader Western initiatives aimed at weakening the USSR's strategic position. The connection the Soviets make between these two issues is their perception of coordinated Western efforts to upset a historically established balance—in the case of Poland, the political-military balance codified by the wartime agreements and reaffirmed in the 1975 Helsinki accord; in the case of Western arms programs (such as the NATO decision to modernize its theater nuclear forces), the balance that has allegedly evolved between Soviet medium-range missiles and US forward-based systems. In any event, in considering future requirements for war in Europe, the Soviets are likely to view any new operational problems posed by the modernization of NATO's theater nuclear forces as only being additionally complicated by the questions now raised about Poland's future role in Warsaw Pact plans.

Events in Poland, at a minimum, have caused the Soviets to plan against the progressive weakening of a country that has been assigned responsibilities of critical importance to the Warsaw Pact. In the event of a war in Central Europe, Poland is responsible for forming and commanding the northernmost front and also for supporting and securing the wartime movement of Soviet troops and supplies through its territory. Poland also maintains a defense industrial base that not only produces a broad range of weapons and military equipment for Polish forces but also helps equip the armed forces of other members of the Warsaw Pact.

To hedge against the reduced reliability of Polish forces, the Soviets may be anticipating an expanded role for their own forces in Poland during the 1980s and, in this connection, may have decided to increase production of some hardware for their ground and tactical air forces. Such increases, however, would likely be incremental and would have little effect on the growth of defense spending.

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It is unclear to what extent, if any, the Soviets would factor the impact of military intervention in Poland in a five-year economic plan. Although an intervention could be costly, the cost of an invasion would depend on the size of the force, the type of military operations that are conducted, and the intensity and duration of Polish resistance. Consequently, the Soviets probably have not been able to calculate with any degree of certainty the specific costs and consequences of an invasion in military, much less economic, terms.

We believe it more likely, therefore, that adjustments to accommodate large increases in Soviet defense activities would be primarily directed against a perceived accelerating arms competition with the West. The Soviets would probably not view increases to improve their military position vis-a-vis the West as requiring the economic sacrifice that industrial mobilization entails. Indeed, they are probably still uncertain about the long-term threat implicit in the US buildup and, in any event, recognize that the United States will not be able to quickly turn around the imbalances it now perceives. Having this perspective, the Soviets would probably pursue a combination of near-term production increases for selected weapon systems and longer term increases in investment and developmental activity to hedge against what in their view is an increasingly uncertain strategic environment.

We are confident we would detect large increases in Soviet weapons development and production programs well before such weapons became operational with Soviet forces.



If the Soviets pursued this course, defense spending growth would probably increase above historical rates during the mid-to-late 1980s and beyond. This resolve to increase the long-term priority of defense, however, would have an impact on the Soviet economy in the 1981-85 period.

Economic and Social Impacts

As economic conditions worsen during the 1980s, merely maintaining past rates of growth in defense spending will become increasingly difficult—both economically and politically—for the Soviet leadership. Simulations conducted on a macroeconomic model of the Soviet economy by the Office of Economic Research suggest that, under the impact of labor and energy shortages and with annual defense spending increases of about 4 percent through 1985 and slightly less afterward, Soviet GNP growth would slow to an average annual rate of 2 to 3 percent through 1985 and to less than 2

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percent from then through 1990. The defense share of GNP, which was 12 to 14 percent in 1980, could be a percentage point higher in 1985 and could approach 20 percent by 1990. This would drastically reduce the ability of the Soviet leaders to allocate the additional resources to investment and consumption that have been so important in the past in easing political tensions that arise from the competition for resources. Under these conditions, if military outlays continued to grow during the 1980s at historical rates, it would reflect a conscious decision to increase the priority of defense relative to economic growth and consumer welfare.

To the extent that any plan revisions increased investment in defense industries, investment in some civilian sectors would suffer. Both heavy industry and agriculture have powerful patrons in the political leadership, and the priority needs of energy, machinery for industrial modernization, and transportation could make it difficult to cut allocations in these areas. Consequently, investment in such areas as consumer durables, services, housing, and machinery and equipment for the processed food and soft goods industries would be likely primary candidates for cutbacks, with high-priority civilian areas being secondary targets. Cuts in the consumer sector could have two unpalatable consequences: a worsening of already poor prospects for improving labor productivity and an increase in worker discontent.

Moscow is counting heavily on large gains in labor productivity to meet the economy's output goals. The plan directives currently stipulate that 90 percent of the growth in industry and all of the growth in agriculture must come through increases in productivity. Without some improvement in consumer welfare, chances of generating the large productivity gains implied in the 11th Five-Year Plan will be much reduced.

Labor unrest would be even more unpalatable to the leadership than lagging productivity. Food shortages resulted in scattered work stoppages last year, and reports of strikes have surfaced again recently. Some middle-level party officials admit to a sense of isolation from the working class, and anxiety over the Soviet workers' mood has grown since the Polish crisis began last year.

The Soviet leadership is sensitive to the social instability that could arise from increasing consumer dissatisfaction and to the impact of this dissatisfaction on labor productivity. Given this possibility, there will be pressures to allocate a greater share of output to consumption in the 1980s at the expense of either investment or military spending. Serious social instability could force the Soviets to reassess their economic priorities in favor of the consumer. Short of this, we believe the Soviet leadership will be

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inclined to continue the current mix of cosmetic concessions, short-term fixes, and patriotic appeals and, if necessary, adopt repressive measures to ensure both the continued growth of their defense effort and domestic control.

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