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State Dept. review completed

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[Redacted]

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The Brezhnev Food Program [Redacted]

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At the Central Committee plenum on 24 May 1982, Brezhnev announced a major new program to improve the production, processing, and marketing of food products. The Food Program reorganizes the administration of agriculture and food processing, redirects investment resources, and increases financial incentives. Although Moscow expects results soon, we believe that conflicts and inconsistencies in the program will mean that it will have little positive impact in the near term and will provide only marginal returns in the late 1980s. [Redacted]

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[Redacted]

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Indicators of Increased Soviet Military Research and Development [Redacted]

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An increased number of weapon development programs and the expansion of research and development facilities indicate a strong Soviet commitment to continued growth in the resources allocated to military research and development through this decade. If present trends continue and are not altered by economic considerations, we expect that the Soviets will develop and introduce into their forces between 165 and 180 new or substantially modified major weapon systems this decade—about 25 to 40 more than were introduced during each of the past two decades. These systems in general will be more technologically advanced and more expensive than their predecessors. [Redacted]

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[Redacted]

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Other Topics

Soviet Trade Policy and US Economic Sanctions [Redacted]

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The Soviets are trying to prevent their commercial ties with the West from becoming a major source of unpredictability in the 1980s. For the short term they are attempting to maintain a reliable network of suppliers in Western Europe; for the longer term they apparently hope to reduce their dependence on imported Western equipment and technology. Differences within the Soviet hierarchy regarding trade, however, suggest that Moscow's trade policy is subject to change in the coming political succession. [Redacted]

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[Redacted]

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Repression of Soviet Dissidents Increases 27 25X1

A crackdown affecting all areas of dissent in the USSR—human rights, religion, and Jewish emigration—has been under way since the spring of this year. The crackdown, which coincides with party secretary Andropov's ascendancy, includes a major effort to isolate dissidents from foreigners. 25X1

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Viewpoint **Soviet Economic Growth Prospects: An Alternative View** 35 25X1

Although our current projection of GNP growth for 1981-85 is almost the same as that of Wharton Econometric Forecasting Associates, below this aggregate level our projections diverge in several key areas. This article examines these differences. 25X1

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Near-Term Outlook for the Soviet Economy

Perspective: The Soviet Leadership's Perception of Economic Problems

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The Brezhnev leadership recognizes that it faces a convergence of economic constraints in the 1980s that defy easy solution. Relatively new constraints, such as raw material scarcities, a manpower shortage, a slowdown in capital formation, and a decline in the growth of labor productivity, have combined with such longstanding problems as lagging agriculture and transportation and poor planning and management. Defense spending is acknowledged to be an added burden. Moreover, the leaders realize that the rapid productivity gains necessary to offset declining rates of growth in resources have not materialized. The result is a continuing slide in economic growth as described in the lead article of this issue.

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The beginning of a new planning period (for 1981-85) gave the leadership an ideal opportunity to take stock and to reach long-term decisions about economic policy. The policies of the Five-Year Plan, however, are not bold and innovative, but represent the tenacious plodding that has become the hallmark of the Brezhnev era. This course is illustrated in Moscow's approach to agricultural problems (see *The Brezhnev Food Program*) and stems from the particular style of the Brezhnev leadership as well as the way the leaders perceive their economic problems. They apparently believe that economic problems can be held within manageable bounds without major policy change (see *The 1981-85 Plan: Economic Policy and Political Implications*). The failure of the economy to even approach the 1981-85 Plan goals after two years, however, may prompt the leadership to revise the Plan in midstream as they did after the first two years of the 1971-75 Plan. Such a revision could surface when the Supreme Soviet meets in mid-November to approve the annual plan for 1983.

Brezhnev's successors are likely to have a different style of leadership as well as a different perception of the economic dilemma. First, the power balance and personality mix within the Politburo probably will be substantially altered. Second, if current efforts to raise productivity are ineffective,

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as we believe likely, the leadership's views of the manageability of its problems and the efficacy of its economic policies may also change. Finally, the succession struggle itself could create a highly charged political environment that would enliven the political process and open the way for changes in policies. All these factors might allow a different approach to economic decisionmaking:

- Possessing a longer time horizon, the new leaders might place a greater emphasis on policies with a longer term impact.
- Harsher economic circumstances might justify tightened discipline and control to effect economic policy rather than reliance on new economic levers or incentives.
- The power transfer might be a propitious time to modify particularly burdensome policies such as the continued rapid growth in defense spending that the former regime had considered untouchable.

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These changes in a new leadership's decisionmaking approach could lead to some policy shifts:

- A modest cut in the growth of defense spending to prevent a further decline in the already low rate of investment growth or an absolute decline in consumption growth. Some 200 major weapon systems are expected to be under development during the decade, and the new leaders could have to make tough choices about which of these to introduce into the forces, when to field them, and in what numbers.
- A larger share of investment funds channeled to machine building and such bottleneck areas as transportation and ferrous metallurgy, possibly at the expense of agriculture.
- In the consumer area, a sharper differentiation of material rewards based on individual performance.
- Some shift in investment and manpower among regions to ease the growing geographic imbalance in the labor force.

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The leadership probably would not expect these new policies to be a panacea for the economy's basic ills but would anticipate marginal improvements that would allow them to continue muddling through. Of primary importance to the new leaders would be the knowledge that such policies would not diminish their power and would still allow them to marshal resources quickly to overcome external or internal threats to their security or stability.

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Soviet Economic Performance in 1982 and Outlook for 1983 [redacted]

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The slowdown in Soviet economic growth, particularly evident since 1978, is continuing in 1982. We estimate that Soviet GNP will rise about 1.5 percent this year—the fourth consecutive year of growth at less than 2 percent. The outlook for 1983 is for more of the same—slow economic growth, industrial shortfalls, and little or no gain in consumer living standards. If the economy is to be revived, Moscow must find a way to reverse the decline in combined labor and capital productivity that has occurred in the past several years. [redacted]

The Economy so Far in 1982

Industry: Serious Problems Continue. After a poor start in 1982, industrial performance has shown some improvement over the course of the year. Even so, industrial production through the first eight months of 1982 was only 1.5 percent higher than in the first eight months of 1981. Output in key sectors such as ferrous metals and construction materials dropped below levels achieved during the first eight months of the previous year (see table 1). In ferrous metals, for instance, production of crude steel, iron ore, and finished rolled steel products all dropped approximately 1 percent. Even the production of steel pipe—the only sector of the ferrous metals industry that has performed reasonably well in recent years—was down 1.6 percent compared with the first eight months of 1981. Nonferrous metals output was stagnant as electric power outages brought on by severe drought conditions in Siberia, as well as delay in bringing new generating capacity on stream, constrained production of aluminum and other nonferrous metal products. [redacted]

Growth in most other industrial sectors remains sluggish. In the chemical industry, for example, output of plastics, chemical fibers, and sulfuric acid—all vital raw materials for other industries—was below plan. Civilian machine-building output, up 3.2 percent compared with the first eight months of last year, is not rising fast enough to meet plans for supplying producer and consumer durables to the economy. Indeed, production of such important items as electric motors,

Table 1 *Percent growth^a*
USSR: Industrial Performance

	1981	Jan-Aug 1981	Jan-Aug 1982
Civilian industry	1.8	2.4	1.5
Electric power	2.4	2.2	2.8
Fuel products	0.9	1.1	2.1
Ferrous metals	0.2	0.4	-1.1
Nonferrous metals	0.3	0.0	0.1
Forest and paper products	2.2	1.7	1.9
Construction materials	1.0	1.0	-3.0
Chemicals	4.2	4.0	1.6
Civilian machinery	1.8	4.4	3.2
Food industry	1.6	0.2	0.8
Light industry	2.0	1.0	-0.2

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^a Percentage change in output between the indicated period and the comparable period of the preceding year.

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freight cars, diesel locomotives, and automobiles was near or below levels of the comparable period in 1981. [redacted]

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The energy sector, in contrast, has performed relatively well so far this year (see table 2). Although oil production in January through August was slightly higher than in the same period in 1981, we estimate that production for the year will fall below the 1982 target of 614 million tons. Compared with previous five-year plans, the 1981-85 target of less than 1-percent average annual growth in oil output is extremely modest. Even so, greater efforts to bolster drilling activity and fluid-lift capacity will be required to achieve even these goals. [redacted]

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Table 2
USSR: Energy Production

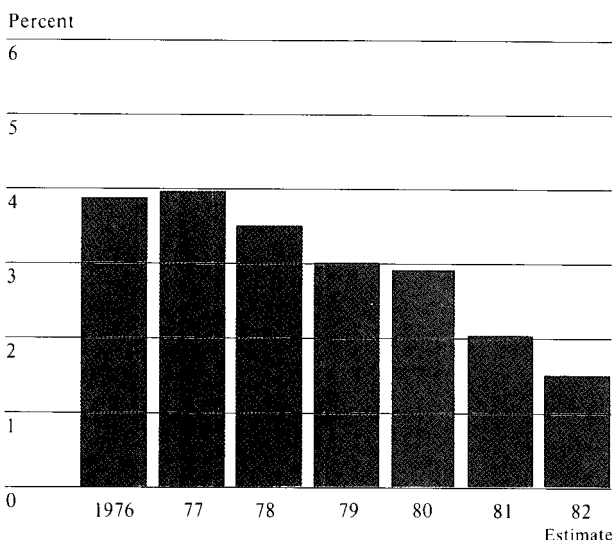
	1980	1981	1982 (Projected)	Jan-Aug 1981	Jan-Aug 1982
Oil (million tons)	603	609	610-612	405	407
Coal (million tons)	716	704	710-715	472	481
Gas (billion cubic meters)	435	465	497-503	303	327

We project a moderate gain in coal production this year, marking the first time since 1978 that coal output has risen. The improvement in coal production can probably be attributed to the startup of a large-capacity coal excavator at the Ekibastuz open pit mine. Achievement of even this moderate increase, however, could be jeopardized by a poor showing in the remainder of the year—a problem that has affected the coal industry in each of the past three years.

The USSR should have little difficulty meeting the 1982 gas production plan of 492 billion cubic meters. Almost all of the increase in gas output is coming from the Urengoy field in West Siberia, which by 1985 will account for at least 40 percent of Soviet gas production. The future of the gas industry hinges heavily, therefore, on building the six large-diameter pipelines from the Urengoy field—each at least 2,800 kilometers long. To date, construction is on schedule.

On balance, we estimate that the rate of increase in overall industrial production, which hit a post-World War II low last year, will be even less this year—about 1.5 percent (see graph). Soviet leaders are well aware of the seriousness of their industrial problems. Still, they continue to express confidence—at least publicly—that all obstacles can be overcome by boosting labor and capital productivity. Growth in labor productivity, however, remains sluggish and capital productivity is falling. The productivity of labor in the

USSR: Growth of Industrial Production



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industrial sector, for instance, increased only 0.8 percent in the first eight months of this year, below the 1.7-percent growth achieved in January-August 1981 and far below the 4.5-percent annual rate of increase targeted for 1981-85. Indeed, labor productivity declined in the first half of the year in such key industries as oil, coal, ferrous and nonferrous metals, and the meat and dairy industry.

Agriculture: Another Below-Trend Year. The Soviets are facing a fourth straight disappointing grain harvest. The poor weather that has reduced grain output is adversely affecting production of other crops as well. As a result, substantial increases in supplies of other quality foods, particularly fruits and vegetables, are also unlikely.

In his speech in May 1982 unveiling the long-promised, highly touted "agro-industrial reorganization," General Secretary Brezhnev reiterated his commitment to the food program and promised consumers

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that food supplies would improve this year.¹ In addition to the embarrassment and political risk that would follow a substantial fall in the supply of quality foods during the first year of the program's implementation, the regime must worry about repercussions in other sectors of the economy. Shortages of quality foods and other desired consumer goods would undermine worker morale and inhibit the gains in productivity that Moscow is counting on to stimulate economic growth. [redacted]

Transportation Bottlenecks. Freight turnover on the railroads—the primary mode of freight transportation in the Soviet Union—declined 2 percent in the first six months of 1982 compared with the first half of 1981. This is the first time rail freight turnover has declined since 1979, when severe winter weather west of the Urals crippled rail operations, causing shortages of raw materials and fuel throughout much of the economy. Although part of the decline is due to reduced growth in economic activity in the USSR, the main reason is a severe shortage of railcars; railcar production has dropped steadily since 1976. The shortage of railcars this year has been particularly disruptive to the transport of mineral fertilizers, timber, and oil. [redacted]

Capital Investment. State capital investment—which typically makes up about seven-eighths of total capital investment—totaled 54 billion rubles during the first six months of 1982, an increase of 2 percent over the same period in 1981. Investment growth planned for the current five-year period is by far the lowest of the post-World War II era. Achievement of the growth in GNP and its component sectors implied by the 1981-85 Plan depends critically on substantial increases in capital productivity. Moscow's chances of substantially boosting capital productivity during the current plan period, however, are remote. Indeed, the upward trend in the amount of capital required per unit of output of goods and services (capital-output ratios) in recent years is the dominant feature of much of the recent slowdown in Soviet economic growth and the source of much of the leadership's difficulty in arriving at decisions on resource allocations. [redacted]

¹ See *The Brezhnev Food Program* in this issue. [redacted]

Employment. Employment in industry during January-August 1982 was 0.7 percent higher than in the first eight months of 1981. This growth rate exceeds the approximately 0.5-percent annual rate of employment growth implicitly targeted during 1981-85. During the first half of the year, the largest increases in employment occurred in the energy sector—electric power, 2 percent; oil, 3 percent; gas, 1 percent; and coal, 2.6 percent. Larger-than-average gains occurred in ferrous and nonferrous metals and in the chemical industry. Employment in most consumer-related industries either stagnated or fell. [redacted]

Foreign Trade: Payments Position Improves. [redacted] Moscow substantially improved its hard currency payments position in the first half of 1982. The trade deficit was an estimated \$3 billion, about half that of the first half of 1981. In the first quarter, for which more complete data are available, a 50-percent jump in exports² combined with a slight drop in overall imports sliced the trade deficit to \$1.3 billion. Gross debt to Western banks, which increased \$2.5 billion in 1981—declined by \$1.5 billion during the first quarter of 1982, and the usual drawdown of assets in Western banks was held to less than \$2 billion compared with \$3 billion during the same period last year. [redacted]

For the year as a whole, hard currency outlays for agricultural products are likely to level off at about last year's record \$11.5 billion, accounting for more than 40 percent of all hard currency imports. Soviet purchases of Western machinery and equipment are likely to increase somewhat above last year's \$4.5 billion level as deliveries of equipment for the Siberia-to-Western Europe pipeline begin. [redacted]

All things considered, Moscow has a good chance to hold the trade deficit for the year below \$3 billion. Even if arms deliveries fall below the \$5 billion level of 1981, as appears likely, the current account surplus could remain at about last year's \$700 million level. [redacted]

² Oil deliveries to West Germany, Belgium, the Netherlands, and Italy and machinery shipments to Iraq accounted for most of this increase in exports. [redacted]

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Outlook for 1983

The problems plaguing Soviet industry are certain to carry over into next year. In particular, shortages of iron ore and coking coal and outdated plant and equipment will continue to restrict the range and quality of machinery produced. Output of transport equipment, particularly diesel locomotives and freight cars, is likely to continue to fall, and transportation will remain a major bottleneck in the economy.

Moreover, hard currency constraints will prevent an increase in much needed imports of the kinds of machinery and equipment and basic industrial materials needed to help alleviate the current strain on industrial output. [redacted]

The recent trends in labor and capital productivity also are likely to continue next year. The slow pace at which Soviet industry is being modernized and living standards are improving, plus the likelihood of continued shortages of material inputs, makes a surge in the growth of labor productivity unlikely. Moreover, given the dim prospects for greater efficiency in industry and the continuing upward pressure on capital-output ratios from exogenous forces, it is not likely that the downward trend in capital productivity can be reversed. [redacted]

Performance thus far in the 11th Five-Year Plan period and the outlook for 1983 make it clear to us and probably to the Soviet leadership that the original Five-Year Plan goals are unrealistic and cannot be reached. The question is what can Moscow do about it? Most likely the leadership will revise the original targets downward to more realistic levels; it has done this on numerous occasions. Economic difficulties in 1972, for example, forced Soviet planners to abandon many of the detailed targets for 1973 that had been set forth in the Ninth Five-Year Plan directives. [redacted]

Such revisions, however, are merely paper exercises and will do nothing to correct the imbalances and deficiencies plaguing the economy. The more important question is whether the leadership will change the basic strategy behind the current Five-Year Plan. One possibility is a return to the "old way" of achieving economic growth, "throwing" more resources into problem areas. With the growth in the labor force slowing down, this would mean stepping up the rate of

investment. Indeed, the official view that the need for increased investment can be substantially avoided by higher capital productivity has already been publicly challenged within the Soviet Union. The fact that opposition views were published at all suggests significant political support for such criticism and could mean that a debate over investment policy is currently under way in the USSR. [redacted]

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We have no way of knowing whether the arguments for higher investment will win out, but we believe it unlikely at this juncture that the current Five-Year Plan will be scrapped. Such action would cause disruptions and require extremely controversial initiatives that seem beyond the abilities or desires of the Brezhnev leadership. Increasing investment would entail cutting either the consumers' or the military's share of resources, or both. Any of these choices would be painful considering the current international climate and the apparent concern of the leadership about living standards in the USSR. In any case, substantially raising investment could not be done quickly; certainly it would not have much impact in 1983. Boosting output in industrial sectors that either produce investment goods directly—the machine-building industries—or provide inputs to these sectors—steel and construction materials—will require substantial investment in these sectors first. [redacted]

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Finally, attention to economic reform as a potential solution to Moscow's economic woes will intensify. The numerous reforms in management and planning devised in the last several years have done little to raise the efficiency of the economy. Even so, some new type of economic reform, if only cosmetic, may be on the agenda next year. True reform that would loosen central control and move the economy toward greater reliance on prices and market forces, however, seems out of the question, at least until a new leadership has firmly established itself in power. [redacted]

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**The 1981-85 Plan:
Economic Policy and
Political Implications** [redacted]

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The 11th Five-Year Plan is the Soviet leadership's blueprint for wrestling with the economic problems of the 1980s. The policies reflected in the Plan, however, are not bold and innovative but represent the tenacious plodding that has become the hallmark of the Brezhnev era. The Brezhnev leadership can be said to favor:

- Short-term gains that emphasize results now with little regard for long-run consequences—exemplified by their policies on resource allocation in general and investment in particular.
- Administrative solutions rather than basic systemic change—the most recent example being the organizational changes prescribed in the Food Program.
- Incrementalism—that is, piecemeal or experimental introduction of major new policies—reflected in reforms under way in both the industrial and agricultural sectors.
- An evenhanded but restrained use of the carrot and stick for getting results (particularly apparent in consumer policy) and an abiding belief in the ability to motivate by nonmaterial means—an important element in recent campaigns aimed at building morale and getting in touch with the masses.
- The preservation of untouchable policy areas—ones that are largely immune to budget cuts or revision—including growth in defense spending, stability of consumer prices for basic goods, and large agricultural investments and subsidies. [redacted]

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Nonetheless, there is a wide divergence of opinion within the leadership over some of these policies. The importance of these differing views increases as the succession nears because economic policy choices inevitably become intertwined with political maneuvering. [redacted]

Key Policies of the 1981-85 Plan

Seven policy areas capture the essence of the 1981-85 Plan and reveal the major sources of contention within the leadership. [redacted]

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Resource Allocation. The Plan indicates that of the three major resource claimants—investment, consumption, and defense—investment was a relative loser. The shift away from the traditional emphasis on investment began in the 1976-80 Plan but was taken a step further in the draft directives for 1981-85. Apparently, as the economy continued to falter, there were persuasive reasons for not cutting the planned growth of defense and consumption, making investment the residual claimant. [redacted]

Party secretary Chernenko warned publicly that if popular needs were ignored for the sake of production, not only the people, but production too, would suffer. [redacted]

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The cutback in investment growth was undoubtedly highly contentious within the leadership. Historically, the economic sectors most heavily represented on the Politburo, such as heavy industry, have had gargantuan appetites for investment capital. The major controversy probably centered on consumption's rightful place in the pecking order. Serious opposition to satisfying the demands of the defense sector would have been unlikely at this presuccession juncture. Criticism of the general policy to reduce investment growth is beginning to surface in major economic journals. Speeches by regional leaders also reflect deep concern over the shortage of investment capital and its effect on meeting local production goals. [redacted]

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Investment Priorities. The Plan's draft guidelines revealed the general investment philosophy—funds would be concentrated on those sectors that had the

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most potential for technological change and that were related to "bringing fuel, energy, mineral, and raw materials resources of the eastern and northern regions of the country into national economic use." The agricultural sector managed to retain the same share of resources that it had in the previous Plan [redacted]

Dividing an investment pie that has become only slightly larger has exacerbated regional disputes as well as the traditional rivalry between patrons of heavy and consumer goods industries. The directives specifically favor development of the eastern and northern regions of the country at the expense of the European part, and there is evidence that large new Central Asian projects are being squeezed. Succession politics have typically given regional leaders more influence in national policy formation, and contending factions will exploit this situation. The age-old controversy over the relative growth of producer goods and consumer goods has taken on a new sense of urgency because of the Polish experience and the possible adverse effect on productivity of failing to meet consumer demands. [redacted]

Consumer Welfare. The Plan's commitment to the consumer requires sacrificing resources for traditionally higher priority sectors. Just to maintain the per capita availability of foodstuffs, for example, the leadership has decided to import vast quantities of grain and meat. These imports have cut deeply into hard currency assets, perhaps at the expense of other important goals such as growth in machinery imports. Measures to keep consumer expectations from outpacing the economy's potential are also planned. The main points of the consumer program are continued heavy expenditures on food-related areas, organizational/management changes to spur consumer goods output, stimulation of the private sector, campaigns to improve morale and communication with the masses, and measures to restrain demand. [redacted]

Leadership support for the consumer varies widely. Party secretary Chernenko can be considered a consumer advocate and has taken numerous steps to cultivate a "populist" image. The leadership's traditional supporters of heavy industry, such as Kirilenko, are allied with party ideologues against such blatant "consumerism." A third group, perhaps the majority

of the leadership, may be labeled "realists" since they recognize the legitimacy of consumer demands but at the same time realize that satisfying them would require sacrifices in other important sectors. [redacted]

Economic Reform. The draft directives signal renewed interest in the general area of improving planning and management and devote a section explicitly to this theme. Such a section appeared for the first time in the draft directives for the 1966-70 Plan, but was dropped in the 1971-75 Plan directives as economic reform efforts ran into recurring and formidable implementation problems in the second half of the 1970s. The 1981-85 Plan is long on reform rhetoric but short on concrete solutions, acknowledging that new ways must be found "to perfect the economic mechanism." In effect, this encourages public discussion of reform proposals without adopting a reformist course. In response, the Soviet press has been filled with articles touting reforms in Eastern Europe and recommending the borrowing of ideas from such divergent sources as the United States and Lenin's New Economic Policy period. [redacted]

The range of leadership opinion on the subject of reform appears much narrower than that of the press articles. Soviet leaders have never indicated a desire for fundamental systemic change and, indeed, have demonstrated a decided preference for improved bureaucratic centralism and organizational solutions. Currently, the leadership is embroiled in discussions of two organizational/management issues. The first is a debate over the relative merits of regional versus functional organization of the economy, probably spurred by the recent endorsement of regional agro-industrial associations (RAPOs). The second issue is the proper role of the party in economic management. [redacted]

Agricultural Policy. The relatively consistent support for the agricultural sector since 1965 has been due largely to Brezhnev's personal interest and backing. The 1981-85 Plan allocated more than one-fourth of total investment resources to the farms. However, it shifted the major focus away from increasing farm productivity to increasing the efficiency of the entire food production and marketing chain, particularly

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storage and procurement. The new Food Program introduced in May also concentrated on this larger area and featured a change in organization, shift in investment, and improved incentives. [redacted]

The policy of pouring money into the agricultural sector has been a controversial one, however, and Brezhnev's defensive rhetoric at the May 1982 agricultural plenum indicated that its opponents are still formidable. The issue of agricultural organization has proved particularly contentious and promises to be a pawn in succession maneuvering. Half measures taken in the Food Program indicate still unresolved issues over power sharing between Moscow and regional authorities and suggest that Brezhnev had to make significant compromises in his original program. [redacted]

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Manpower and Demographic Policy. The Plan indicates that the effort already under way to ameliorate the labor shortage in a number of conventional ways will continue. This effort includes measures to increase the supply of labor, such as making work more attractive to women and pensioners, and to decrease the demand for labor, such as placing ceilings on the number of workers in certain sectors. Bolder policies in three areas that would have a longer run impact and potentially bigger payoffs—automation, regional investment shifts, and raising the birth rate—have been finessed for the most part, with one interesting exception: a regional approach to demographic policy was endorsed at the 26th Party Congress in 1981, encouraging higher birth rates in the Slavic regions. Regional sensitivities within the leadership, which are traditionally given more weight in a succession period, probably have been a major factor in postponing further action. [redacted]

High-level differences over the importance and strategy of East-West trade are still evident, as they were at the inception of Brezhnev's detente policy. Some Politburo members have been enthusiastic supporters while others have remained equivocal or silent on the issue. In general, however, Politburo enthusiasm for the pursuit of improved Soviet-US relations has been on the wane since passage of the Jackson-Vanik Amendment in 1974 and even more so after the Soviet invasion of Afghanistan. The leadership has publicly expressed determination to wean the economy away from major dependence on the West for technology or grain. Moreover, in conversations with Westerners, Soviet officials have expressed disappointment over the contribution of imported technology to industrial output. The leadership seems increasingly aware that importing foreign technology is not a panacea for reversing the decline in economic growth. [redacted]

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East-West Trade Policy. The draft guidelines of the Plan anticipated trade only "with those developed capitalist countries that show an interest in cooperation with the Soviet Union." Bearish prospects for East-West trade were indicated by the modest growth planned for the volume of trade with non-Communist countries—only 2.5 percent annually compared with 5 percent in 1976-80. Subsequent speeches by the leadership indicated that the pessimistic language was aimed primarily at trade with the United States. [redacted]

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The Brezhnev Food Program [redacted]

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To stave off a rising tide of discontent and falling productivity among the work force, Brezhnev has launched a major new program for the 1980s to improve the production, processing, and marketing of food products. In past campaigns to boost food availability, the focus has been on production on farms. The inclusion of stages in the food production chain beyond the "farm gate" reflects official concern over the prodigious losses of perishable foods as well as the low quality of much of the food that finally reaches the consumer. The new campaign to upgrade the entire food production and distribution process is referred to in the Soviet press as the Food Program.

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Although controversy over this program abounds, as reflected in the year and a half of bureaucratic wrangling over its preparation, its announcement at the Central Committee plenum on 24 May 1982 reflects the growing pressure on Moscow to do something in the face of three consecutive years of harvest shortfalls, worsening food shortages, disgruntled consumers, and rising food import bills. The program was pushed through even though key questions were not resolved concerning the organizational aspects, and there is mounting evidence that continued disagreements within the leadership may impede its implementation.

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Key Features of the Program

The Brezhnev Food Program includes three key measures aimed at improving food production and distribution:

- A reorganization of the administrative structure to promote "unified management" of farms, food-processing enterprises, transport organizations, and the trade network.
- An investment program to improve the system for handling, storing, and processing food and to improve housing and living conditions in the countryside.
- An increase in financial incentives in the form of higher wages, bonuses, and farm incomes.

Reorganizing the "Agro-Industrial Complex." As the centerpiece of the Food Program, the plenum approved the creation of agricultural-industrial coordinating bodies at the national and regional levels (see figure 1). Although severely watered down from earlier proposals, the decision reflects a move in the direction of interbranch program management long urged by leading economists and by Brezhnev.¹

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At the national level, the Presidium of the USSR Council of Ministers will have a Commission for Questions of the Agro-Industrial Complex made up of the heads of the various ministries and state committees involved in agriculture and food processing. This group appears to have no management functions nor will it encroach on Gosplan's planning functions. Union republics will have corresponding commissions. Associations will also be created at the *oblast, kray,* and autonomous republic level.

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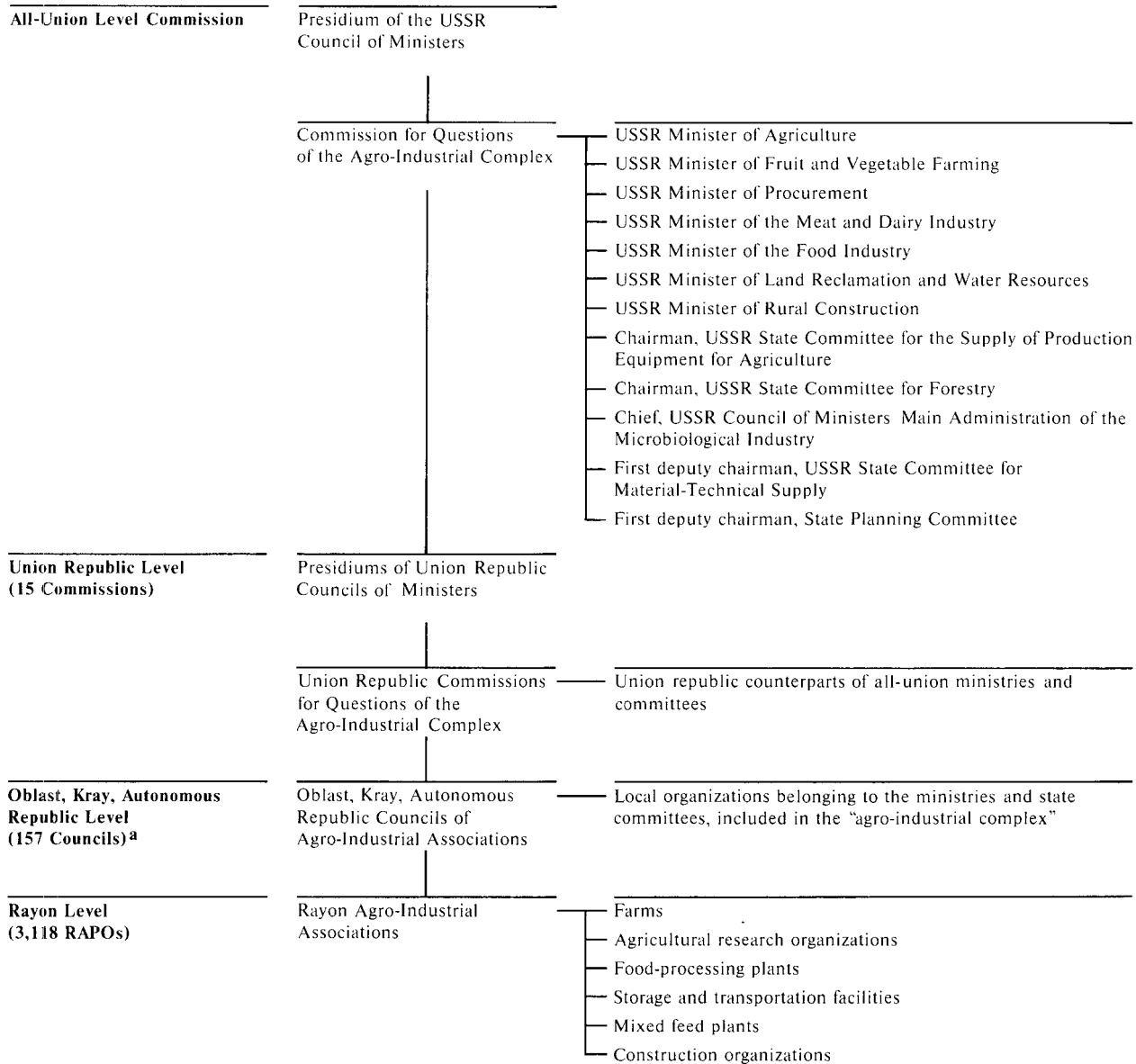
The reorganization to be carried out at the district level is the most significant and controversial aspect of the structural changes. The "rayon agro-industrial association" (RAPO)—an innovative form of administration that has been operating for a number of years on an experimental basis in Estonia, Latvia, and Georgia—was approved by the plenum for adoption nationwide. RAPOs are self-financing associations that include as members all farms, agricultural service agencies, and processing enterprises in a given district. As such, they cut across ministerial lines, concentrating authority at the local level. RAPOs theoretically have the authority to distribute and redistribute resources within their regions and regulate economic relations among association members.

¹ Traditionally in Soviet usage, the "agro-industrial complex" includes all ministries producing goods and services for agriculture and food processing such as chemical products, machinery, and repair and transportation services. For purposes of the reorganization, however, Soviet officials have defined the "agro-industrial complex" more narrowly to exclude ministries producing fertilizer and machinery for farms and for food-processing enterprises.

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Figure 1
Organizational Structure of the "Agro-Industrial Complex"
as Outlined in the Food Program



² Autonomous oblasts within krays are not counted separately in this total.

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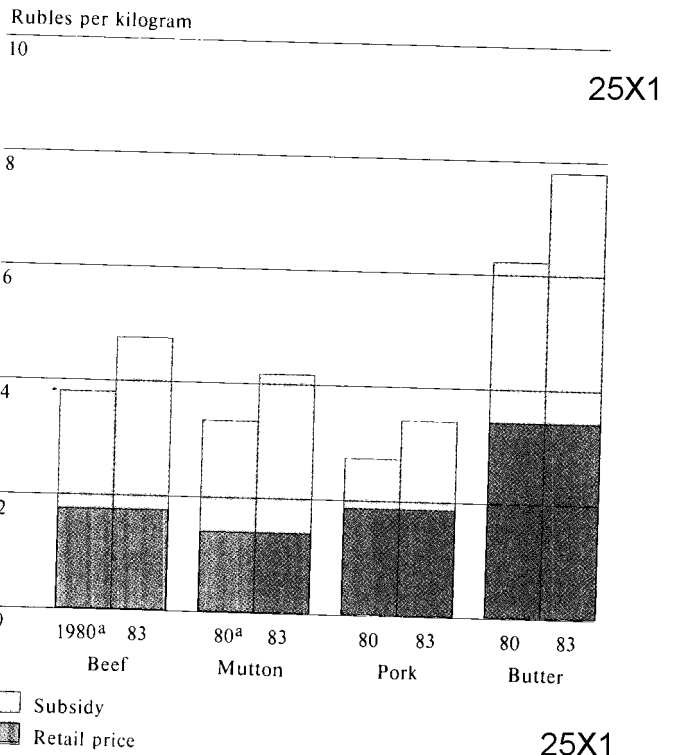
Such a wide-ranging mandate, in our view, will inevitably produce conflict between the RAPOs and the ministries to whom the individual farms and enterprises within the RAPO are also subordinate. There are reports that factions opposed to the reorganization—notably the central ministries—are resisting giving RAPOs such broad authority. [redacted]

Redirecting Investment Resources. As in 1970 and 1978, Brezhnev has succeeded in gaining Central Committee approval of agriculture's share of total investment well in advance of the next plan period. The 1981-85 Plan allocates 33 to 35 percent of new fixed investment to the "agro-industrial complex" (broadly defined) and the Brezhnev Food Program claims the same share of investment for 1986-90. During the 1980s, investment resources are to be distributed somewhat differently than in the past to build up what Moscow considers the weak links in the food production chain—sectors producing machinery for agriculture and food processing, social overhead projects such as housing and roads to improve living conditions in the countryside, and the food-processing sector itself. This new investment strategy addresses many of the complaints long made by critics of the "agricultural lobby" and therefore probably commands stronger support within the leadership than the previous investment policy. [redacted]

Increasing Financial Incentives. In addition to larger investment in rural housing and other facilities, the Food Program contains other measures to keep the agricultural labor force in place and to attract well-trained technicians to farm jobs. To this end, the program calls for further reduction in urban-rural income differences. Farm wages will continue to increase faster than those of other workers. Managers, professionals, and semiprofessionals are to receive additional pay and bonuses. [redacted]

To raise farm income and production, higher procurement prices for cattle, hogs, milk, grain, sugar beets, potatoes, vegetables, and "other products" will go into effect on 1 January 1983. At the same time, prices paid by farms for equipment, fertilizer, and fuel will be lowered. The financial position of farms will also be improved by grants from the state budget to finance investment projects and by writeoffs and deferments of farm debt. [redacted]

Figure 2
USSR: State Outlays for Procurement and Processing of Selected Livestock Products



* Retail prices covered less than half of state ruble outlays per kilogram for procurement, marketing, and processing of beef and mutton in 1980.

Source: *Finansy SSSR*, Number 7, 1982, page 10. (Figures for 1983 are official Soviet projections.)

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Goals for Farm Output in the 1980s

To meet Food Program targets, shown in the table, average annual growth in farm output would have to return to the long-term rate achieved during 1951-70—about 4 percent per year.² We estimate that annual increases in plant and equipment and growth in labor and material inputs will be well below earlier rates. The output targets, therefore, imply a substantial growth in productivity. [redacted]

² Average annual rates of growth were derived by incorporating Soviet plan data for agricultural commodities into the CIA index of Soviet agricultural production. [redacted]

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Annual Average Production of Selected Agricultural Commodities

Million metric tons
(except where noted)

	1971-75	1976-80		1981-85	1986-90
	Actual	Plan	Actual	Plan ^a	Plan ^a
Crops					
Grain	181.6	217.5	205.0	240.5	252.5
Potatoes	89.8	102.0	82.6	88.0	91.0
Sugar beets	76.0	96.5	88.7	101.5	102.5
Sunflower seed	6.0	7.6	5.3	6.7	7.4
Soybeans	0.4	NA	0.5	1.4	2.2
Vegetables	23.0	28.1	26.3	32.0	38.0
Fruits, berries, and grapes	12.4	16.9	15.2	19.2	25.0
Cotton	7.7	8.5	8.9	9.2	NA
Livestock products					
Meat	14.0	15.3	14.8	17.2	20.2
Milk	87.4	95.0	92.7	98.0	105.0
Eggs (<i>billion</i>)	51.4	59.5	63.1	72.0	78.5
Net farm output ^b (average annual rate of growth in percent)	-0.4	3.4	1.2	5	3

^a Midpoints of ranges given in plan documents.

^b In calculating growth rates, midpoints of given ranges were used.

Net domestic farm output is the sum of net output of crops and livestock valued in 1970 average realized prices.

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Will the Food Program Work?

Although Soviet officials have said that Moscow expects positive results from the Food Program within two or three years, we judge this expectation to be highly unrealistic. Too much planning remains to be done before the program gets off the ground, let alone shows results. Even in the long run, the Food Program faces a number of obstacles to achieving its central goals of reducing the USSR's dependence on imports of foodstuffs and closing the widening gap between domestic supply and demand for food:

- *Jurisdictional conflicts are likely.* By trying to appease territorial interest groups without offending central ministerial organizations, the organizational features of the Food Program are likely to result in much bureaucratic infighting with few gains for agriculture.
- *The dependence on productivity gains is unwarranted.* We believe the productivity gains necessary to meet output goals will not occur because RAPOs will fall short of their potential, incentives to boost worker productivity are too little too late, and the investment program may not be fully funded.
- *Improvements in on-farm technology are occurring too slowly.* Improvements are needed not only to raise yields, but to lessen the impact of weather fluctuations on year-to-year crop sizes in the USSR.
- *The price system inhibits success.* Perhaps the greatest impediment to success of the Food Program is the Soviet price system. Prices paid for agricultural inputs and farm products do not reflect relative

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25X1 resource costs and therefore cannot provide adequate signals and incentives for efficient use of resources. The Food Program does not come to grips with this problem, necessitating further increases in farm subsidies. [redacted]

Implications for the 1980s

25X1 Because of the conflicts and inconsistencies inherent in the Food Program, we judge that it will have little positive impact on the economic well-being of the population in the near term and will provide only marginal returns in the late 1980s—if it survives that long. Of more immediate concern is the possibility that the Food Program may become both a vehicle for and a victim of succession maneuvering. [redacted]

25X1 ***Political Impact.*** The marked difference in the way Soviet leaders have treated the organizational aspects of the Food Program in their speeches since the plenum suggests that support for the proposed reorganization is thin. There is evidence, moreover, that the two leading candidates to succeed Brezhnev are on opposite sides of the issue. Party secretary Chernenko has taken the most active public role in supporting the reorganization. Of the leading officials who have spoken out on the issue so far, only he and several others closely associated with the reorganization have dealt with it in strongly positive terms. Even the party secretary for agriculture, Mikhail Gorbachev, who evidently supported Georgian RAPO experiments and presumably had a major hand in drafting the program, only mentioned the reorganization briefly in a recent article and stressed the less controversial aspects of the Food Program. [redacted]

25X1 The entrance of Politburo member Yuriy Andropov into the succession race may further politicize the debate. Andropov avoided any mention of Brezhnev's Food Program in a speech earlier this spring, and there is some tentative evidence that Andropov supports an alternative approach that combines strong central planning and direction of the economy and greater managerial autonomy at the enterprise level. [redacted]

Economic Impact. Because the Food Program contains no provisions that are likely to increase the rate of on-farm technical progress or to improve the price structure, agricultural output in the 1980s will be heavily dependent on weather conditions, which may be no better than the long-term climatic norm. Some production gains are likely, but we consider the output goals of the Food Program to be out of reach. Major reductions in waste will not be forthcoming because organizational aspects of the Food Program will not be implemented sufficiently to provide enough incentive throughout the food production chain to upgrade product quality. [redacted]

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As Soviet economic growth continues to decline and the Food Program fails to provide material relief from shortages, the regime will be forced to pursue more familiar strategies to keep domestic food shortages manageable. For example, sizable food imports probably will continue in the 1980s. The exact size of the imports and the share of per capita consumption gains coming from them will depend on the magnitude of food production, the degree to which domestic farm waste and losses can be reduced, and the magnitude of per capita consumption gains the regime feels obligated to support. Shortages of hard currency will be a continuing constraint, forcing the leadership to choose between keeping consumer grumbling at a tolerable level and maintaining nonagricultural imports. [redacted]

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Failure of the Food Program to produce the results promised could also heighten Soviet interest in purchases of Western agricultural equipment and technology. Recent signs of interest in such purchases suggest that at least some Soviet policymakers are anticipating very slow agrotechnical improvements from domestic sources. [redacted]

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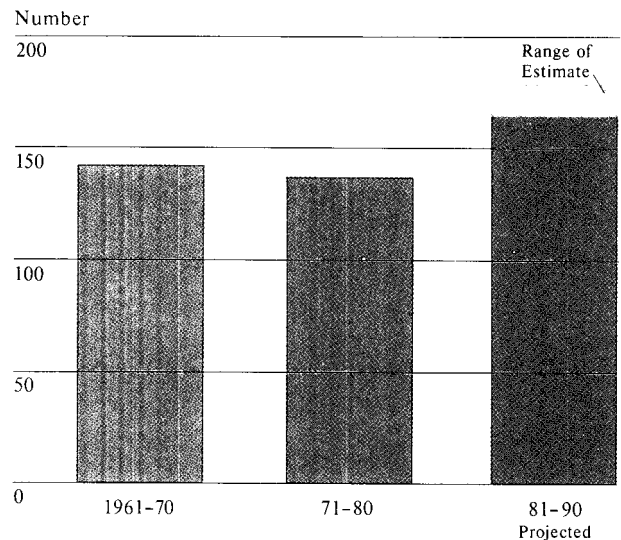
Indicators of Increased Soviet Military Research and Development

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An increased number of weapon development programs and the expansion of research and development (R&D) facilities indicate a strong Soviet commitment to continued growth in the resources allocated to military R&D through this decade. If present trends continue, we expect that in the 1980s the Soviets will introduce into their forces between 165 and 180 new or substantially modified major weapon systems—about 25 to 40 more than were introduced during each of the past two decades (see figure 1).¹ The weapons under development generally are more complex than previous systems, and their costs almost certainly will be greater. The facilities that develop these weapons are expanding at about the same rates that they did during the 1960s and 1970s.

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Figure 1
Number of Major Soviet Weapon Systems Introduced, by Decade



[Redacted]

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Increased Activity

More Weapons Under Development. We believe that the Soviets will have some 200 major weapon systems under development this decade—more than in either of the past two decades. We expect 165 to 180 of them to reach initial operating capability (IOC) by 1990:

- Over 40 of these entered the testing stage in the 1970s and either reached IOC in 1981 or are expected to be deployed by the end of 1982.
- About 95 other systems are known to be under development.
- Beyond these, about 65 more systems are projected by the Intelligence Community to be introduced by 1990. This projection is based on the availability of

¹ Major weapons include aircraft, missiles, naval ships (surface combatants, marine warfare and amphibious ships, and major auxiliaries), submarines, military space systems, major munitions, and principal land arms (tanks, armored vehicles, artillery, and antiaircraft weapons). Decades are defined as 1961-70, 1971-80, and 1981-90.

[Redacted]

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technology and the perceived force requirements not satisfied by those systems identified under development.

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We believe that while the individual systems that eventually appear may differ somewhat from the projections, the additional number introduced will probably be close to 65. Although these Community projections are made without regard to economic constraints, the military R&D establishment is large enough to accommodate the development of these systems. In the past these projections in the aggregate have been fairly accurate for the near term but have tended to underestimate the number introduced five or more years in the future.

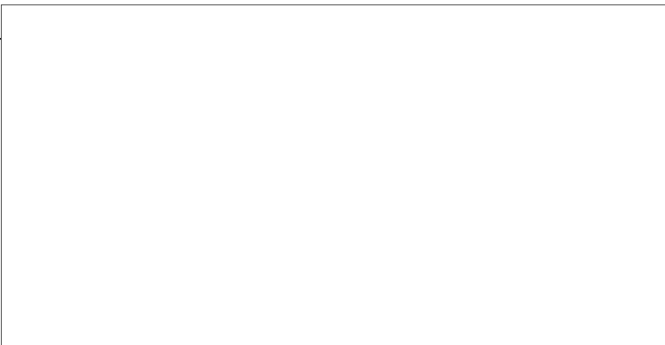
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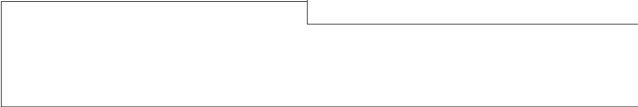
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We almost certainly have not yet identified all the weapon systems under development. Historically, we have been unable to identify many weapons, especially those for ground forces, until just before or even after deployment. Moreover, Soviet practice suggests that many of the systems that recently reached IOC will undergo major modification or redesign in this decade to improve mission capabilities or to incorporate better subsystems. To date, there have been references to over 20 weapon systems under development that we know very little about (and which have been excluded from our list of 95 firmly identified programs). Many of these could be systems that reach IOC by 1990.



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Implications for Defense Spending

Unless the current trend is altered by economic or political considerations, defense spending will probably continue to grow through most of the 1980s. Expenditures for military R&D and weapons procurement account for about half of total defense outlays, and resources for both categories appear to be growing. The precise rates of growth will depend on how many of the new systems under development the Soviets decide to introduce into the forces, when they decide to field them, and in what numbers. New leaders would have a wide variety of program options to choose among, and even if they decided to moderate the growth in defense spending by canceling, deferring, or curtailing some programs, significant improvements in Soviet forces would continue through this decade and into the next.

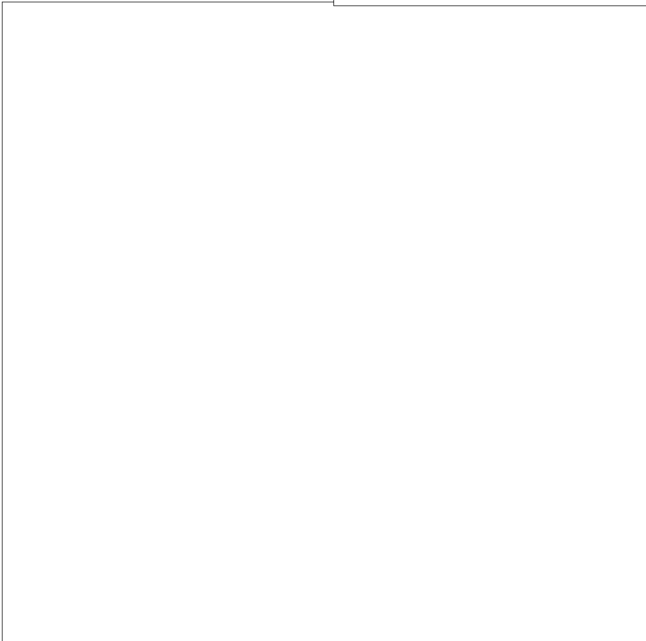
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Not all of the systems identified or projected to be under development, however, will reach IOC in this decade—some will be canceled and others will encounter development difficulties that will delay deployment until after 1990. Considering the large number of systems under development, the Soviet's historical track record on development difficulties, and the nature of the individual development programs, we expect that between 165 and 180 of the estimated 200 systems will eventually reach IOC during the 1981-90 period.

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R&D. The large number of weapons under development and the amount of new technology introduced into these systems suggest that defense R&D outlays will continue to grow. The percentage of these development programs that are new designs—rather than redesigns and modifications of already existing systems—is higher than it was in the last decade (see figure 2). The development of new designs generally requires more resources than do redesigns and modifications.

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More of these development programs than in the past appear to be higher risk efforts instead of programs to develop the evolutionary systems the Soviets traditionally have emphasized. Compared with the 1960s and 1970s, the Soviets in this decade are developing two to three times the number of programs based on advanced (for the Soviets) technologies. These programs—such as the new space plane and space-based

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Errata

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Notice to recipients of *USSR: Monthly Review*, SOV UR 82-009X, [redacted] October 1982.

Two of the graphs in the October 1982 issue of the *USSR Monthly Review* contained plotting errors. The corrected graphs are provided below:

Page 19

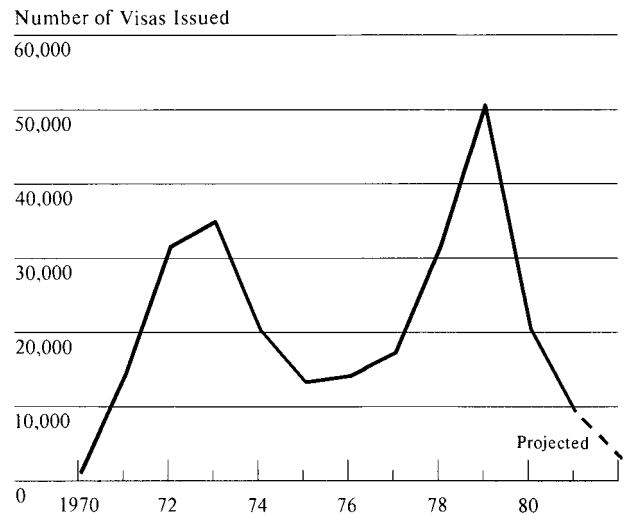
Figure 2
New-Design Systems as a Share of
Total Soviet Weapon Systems
Introduced Annually, 1960-85



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Jewish Emigration From the USSR, 1970-82



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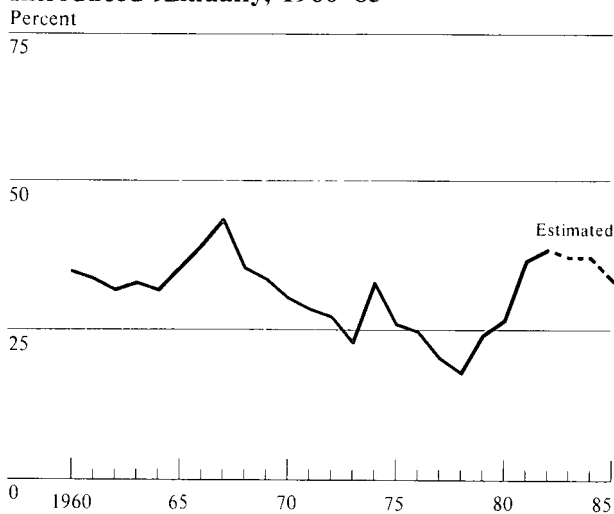
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Figure 2
New-Design Systems as a Share of
Total Soviet Weapon Systems
Introduced Annually, 1960-85



after the mid-1980s. In some weapon categories, the Soviets often produce new weapons in quantities sufficient to replace older systems nearly 1 for 1, and, in the case of ground force weapons, they sometimes produce more of the new units. The higher life-cycle costs associated with the production, operation, and maintenance of many of the newer systems add to the likelihood of increased defense spending through the late 1980s. [redacted]

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Economic Implications

If the defense R&D effort continues to grow at its present pace, it probably will place a greater strain on the Soviet economy during the late 1980s than it does now. Many of these systems incorporate newer technologies and exotic materials and will require advanced equipment for their development. They will continue to draw heavily on the nation's higher quality raw materials and equipment, as well as on its scientific and technical elite—resources urgently needed in the civilian machine-building sector. [redacted]

Over the past several years, however, Soviet leaders have publicly urged the military-industrial complex to provide more support to lagging civilian sectors. This indicates that the leadership is concerned with the economic consequences of the relatively low priority historically accorded the nondefense sector. Defense technology and R&D manpower reportedly have been transferred to assist industries that are critical to economic growth. [redacted]

[redacted]

Such incremental transfers of technical expertise are expected to be the type of economic support rendered by the defense industries over the next several years. [redacted]

We believe that these transfers will not have a significant impact on military R&D programs, at least not for some time. From what we have seen, they are relatively small-scale movements that would not disrupt development cycles for programs in train or the

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antisatellite laser—involve major development and resource risks. Consequently, there is a greater likelihood that false starts and development problems will occur, lengthening the development cycle and increasing costs. [redacted]

Procurement. The large number of programs under development suggests that the resources devoted to procurement of military hardware also will continue to grow through most of the 1980s, particularly if the Soviets choose not to reduce substantially the number of systems they are already producing or are gearing up to produce. Many of the weapons currently being produced will still be in production in the late 1980s. In addition to these programs, the Soviets are preparing to produce many new weapons in the next several years. Of the systems identified under development, over 40 are already in the testing stage. The Soviets rarely cancel a program once it reaches this stage, and the decision to produce a weapon is usually made before the test period. Most of the other systems under development probably will enter production

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basic technology research being conducted for the weapons of the 1990s. Furthermore, Soviet acquisition procedures, once a decision has been made to develop a weapon, impart considerable momentum to the development of that weapon. It would be difficult to arrive at a decision to curtail resource allocations for these programs in midstream. Soviet planners usually are aware of the approximate cost of weapon programs before they give approval to develop them. And decisions to step up development in key civilian areas usually involve new plant and equipment in those areas rather than transfers of currently allocated resources. We have not seen evidence of any development program cancellations or program delays due to resource shortages. Finally, construction programs now under way suggest that recent decisions have been made to initiate new weapon development programs and to allocate the resources required for their development.

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Other Topics

Soviet Trade Policy and US Economic Sanctions

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The USSR, reacting to US efforts to curtail East-West trade, is working to prevent its commercial ties with the West from becoming a major source of unpredictability in the 1980s. For the short term the Soviets are attempting to maintain a reliable network of suppliers by exploiting disagreements between the United States and Western Europe over East-West trade limitations. For the longer term they apparently hope to reduce their dependence on imported Western equipment and technology. Differences within the Soviet hierarchy regarding the advisability of trade with the West, however, suggest that Moscow's trade policy is subject to change in the coming political succession. [redacted]

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Growing Trade and Growing Concerns

During the 1970s, the value of Soviet hard currency imports from the West increased more than ninefold in current prices (see figure 1) and more than tripled in constant prices. Although still small in relation to gross national product (less than 5 percent of GNP), those imports—especially machinery, ferrous metals, and foodstuffs—have played a critical role in many high-priority industrial, agricultural, and military programs, including those for raising energy production and meat consumption and improving missile performance. Moscow's import capacity was boosted sharply by increased prices for oil and gold—two key sources of foreign exchange (see figure 2)—and a burgeoning Third World market for Soviet arms. [redacted]

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Soviet concern about the future of East-West economic relations, however, almost certainly has risen as the volume of trade has increased. US trade policy, tighter Soviet hard currency supplies, and some

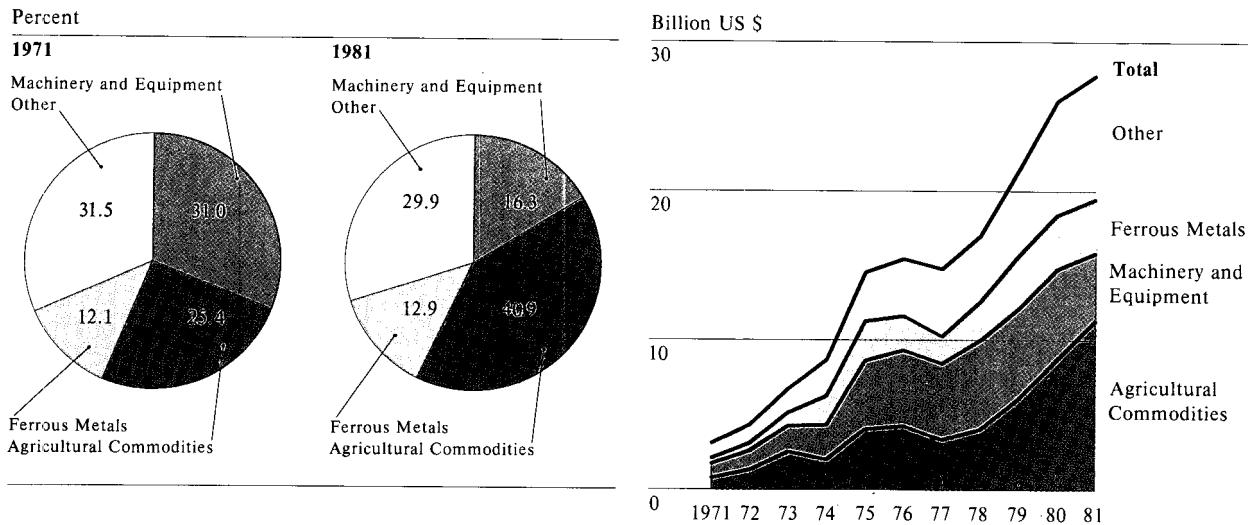
doubts about the contribution of trade to the economy have prompted a more guarded Soviet attitude toward East-West commerce. Official confirmation of this stance was made in November 1981 by State Planning Committee (Gosplan) Chairman Baybakov, who said that the volume of non-Communist trade with the USSR would increase by approximately 2.5 percent annually in 1981-85, compared with more than 5 percent in 1976-80:

- Since Congressional passage of the Jackson-Vanik Amendment in 1974, which required increased Jewish emigration in exchange for reduced US trade barriers and expanded credits, Moscow in its public statements has increasingly pictured the United States as an unreliable trading partner. Soviet media have portrayed Washington as an obstacle to East-West commerce in general because of its efforts to obtain European and Japanese participation in the sanctions imposed against the USSR following the invasion of Afghanistan in 1979 and the imposition of martial law in Poland in 1981. 25X1

[redacted] Our analysis indicates that foreign exchange earnings probably will remain level or even decline in real terms through at least the mid-1980s. Oil exports will probably fall, and earnings from natural gas and other exports are unlikely to make up completely for the drop in oil revenue. Moscow probably recognizes, moreover, that credits will be more costly to obtain than in the 1970s.

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Figure 1
USSR: Hard Currency Imports, by Type



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• The Soviets have expressed disappointment with the contribution of some Western goods and complained publicly that productivity of imported plant and equipment has often fallen victim to the domestic resource shortages and organizational shortcomings that the imports were supposed to ameliorate.¹ Moreover, in a speech in early 1982, Academy of Sciences President Aleksandrov said that reliance on imports has retarded domestic research and development. This statement suggests that some Soviet leaders are concerned that the USSR is exporting important domestic resources such as oil and gas in exchange for continued dependence on Western products that are highly important to Soviet industry. [redacted]

¹ For example, in a November 1979 Central Committee plenum speech, President Brezhnev criticized the Ministry of the Chemical Industry for importing a mineral fertilizer plant for which the raw material inputs to make fertilizer were lacking. At the June 1980 plenum, he added "the import of equipment" to his standard list of major economic problems. In a Soviet newspaper interview in mid-1982, Oleg Bogomolov, Director of the Economics of the World Socialist System Institute and a longtime advocate of East-West trade, said that much of the Western equipment and technology that the USSR imported was not state of the art. [redacted]

Taking Defensive Measures

Although Moscow still sees a substantial need to continue purchasing Western goods and technology, it has been moving in the past year to protect the economy from further Western trade restrictions. Premier Tikhonov said in a June speech that the socialist countries cannot become "isolated from the world economy," but Moscow appears intent on several measures to ensure against trade disruptions that could become increasingly costly as Soviet economic resources are stretched tighter and real import levels lag behind import needs. [redacted]

Pursuing Alternative Suppliers. The most immediate Soviet response to US sanctions is an effort to avoid direct and indirect reliance on US goods. Moscow still prefers some US industrial products—such as energy production equipment and some types of computers—and is still seeking agricultural products from the United States. A "don't-buy-American" policy regarding equipment and technology imports has been

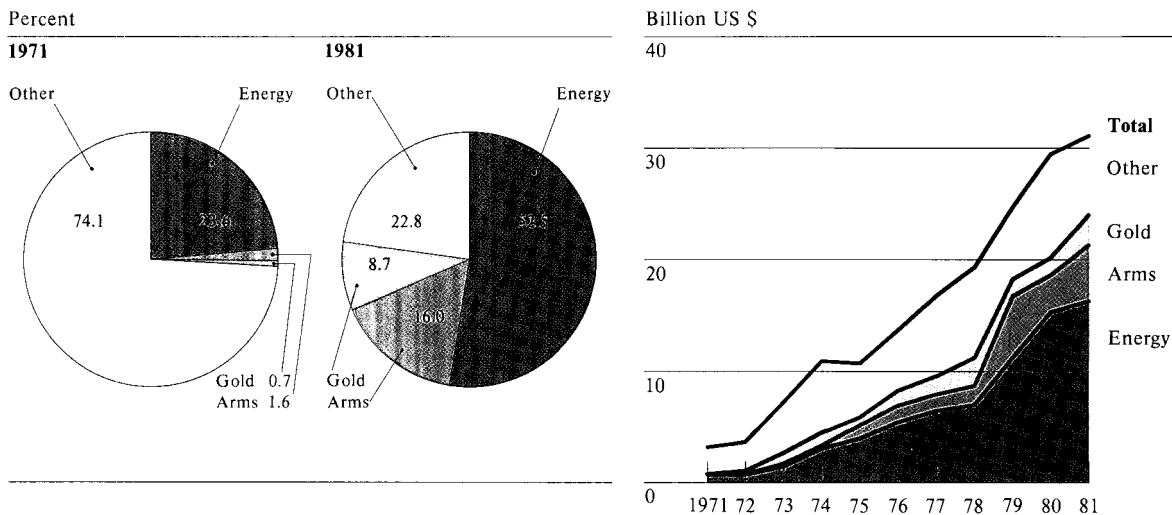
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Figure 2
USSR: Hard Currency Earnings, by Source



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emerging in recent years, however, and, according to top Ministry of Foreign Trade officials, has become firmer since the December 1981 embargo.

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Moscow believes that it has been "burned" by US sanctions too often and has taken the following actions:

- Soviet purchasing agents have been instructed since 1981 to import from the United States only if equivalent technology is unavailable elsewhere.
- Several US-Soviet projects, including oil and gas production equipment orders, have been shifted to other suppliers.
- The United States is not treated as a reliable source of technology and equipment in Soviet long-term economic planning.

Dividing the United States From Europe. Soviet efforts to establish a reliable network of suppliers are based primarily on encouraging West European differences with the United States over trade and credit limitations. The Soviets almost certainly view Western Europe as the largest market for their raw material exports (it accounted for more than two-thirds of total Soviet hard currency trade in 1981) and as having the strongest economic and regional security motivations for trading with them. They probably thus see an opportunity, particularly through long-term trade agreements such as the gas pipeline deal, to raise Europe's stake in trade and widen differences within NATO over the utility of trade restrictions.

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Restrained Allied support of US sanctions in recent years has probably persuaded Moscow that unified and sustained Western sanctions are preventable, at least in the short term. Since the West's failure in the early 1960s to mount an effective embargo on oil and

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gas pipe, Moscow has believed that some industrial countries will always be willing to abstain from major trade restrictions.² Following the sanctions imposed in 1979 and 1981, the Soviets played successfully on the West Europeans' political and economic motivations for expanding commerce by alternately promising major new projects such as the gas pipeline if US policy went unsupported and threatening a major long-run downturn in trade—particularly in energy— if serious restrictions were adopted. [redacted]

Prospects for the 1980s

Despite recent successes in advancing the gas pipeline project, the USSR probably views the future stability of East-West trade with uncertainty. It probably believes that its efforts to prevent major Western trade restrictions will be successful over the next few years but that the United States will continue pushing for limitations that eventually could find increased West European support. [redacted]

Moscow may believe that political developments could eventually dilute the West Europeans' current commitment to expanded trade with the USSR. In that regard, the emergence in October of the Christian Democratic government in West Germany—the Soviets' largest trading partner—is almost certainly of some concern. Although Moscow probably believes that a substantial, immediate change in West German trade policy is unlikely,⁴ it probably also is concerned that the new government's desire to maintain good relations with the United States might prompt Bonn to favor some sort of trade limitations. [redacted]

² When West Germany imposed an embargo on large-diameter pipe sales to the USSR in 1962, Moscow increased its own pipe production and filled remaining needs with imports from Sweden, the United Kingdom, and Japan. The Soviets have frequently cited this episode in arguing that the 1979 and 1981 embargoes would be ineffective. [redacted]

³ Moscow publicly hinted at a scaled-down energy relationship following the Afghanistan sanctions, and Trade Minister Patolichchev, in a strongly worded statement in *Pravda* after the December 1981 embargo, warned that Soviet-West European trade could quickly be "dismantled" if US sanctions were supported. According to widespread press reporting, during meetings last June with West European firms manufacturing turbines for the Siberia-to-Europe gas pipeline under US license, Gas Minister Dinkov warned that contractual penalties and future loss of business would occur if the US embargo were enforced. [redacted]

⁴ The Soviet media have noted the Christian Democrats' reluctance in recent months to oppose the pipeline deal, and they have long touted the influential role of West German business in advancing East-West trade. [redacted]

Economic developments could also weaken the West Europeans' commercial motivations for expanding trade. The decision by the French and West Germans to reduce gas purchases under the pipeline deal—because of downward revisions in their projected gas requirements for the 1980s—has probably led Moscow to conclude that continued sluggish Western growth could substantially limit European demand for Soviet energy and raw materials. Although a Western economic recovery could increase foreign demand for those products, Moscow probably recognizes that non-Soviet supplies could expand by the late 1980s or early 1990s, edging the USSR out of some trade deals. [redacted]

The Soviets have been trying to diversify their export base to get away from a heavy reliance on oil and natural gas, but with little success. Schemes for development of other Siberian raw materials such as coal, timber, iron ore, and copper—the most likely basis for major new Soviet-West European trade agreements beyond gas—almost certainly would not equal the pipeline deal in hard currency revenue or the number of West European countries involved. Moreover, the huge cost of many potential projects and the uncertain market for their products have dampened Western interest. [redacted]

Increased Self-Sufficiency

Faced with uncertain prospects for East-West trade, the Soviets are attempting to step up their output of some important goods now being purchased abroad. Although Moscow has long pursued this objective, official publicity given it in recent months has reached campaign proportions, particularly regarding the intended substitution of Soviet equipment in construction of the gas export pipeline, the primary target of US sanctions. Moscow has also been trying to enhance production of other industrial equipment, such as construction and agricultural machinery, in part by seeking Western turnkey plants and production technology. According to public comments by several Soviet officials, the USSR will now concentrate its Western purchases on inputs and technological information that enhance its own R&D program and the manufacture of important industrial material and equipment. [redacted]

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The Soviets probably will also push Eastern Europe to provide more high-quality equipment. A stronger orientation toward intra-Bloc commerce was indicated by Gosplan Chairman Baybakov in November 1981, when he announced that total planned Soviet trade would increase with CEMA more substantially than with the West. Several party and government officials have said publicly in recent months that CEMA would have to protect its "economic and technological independence" by increasing intra-Bloc trade. [redacted]

The Soviets probably view both the domestic and CEMA efforts at greater self-reliance as offering essentially long-run payoffs. They almost certainly believe that achieving a substantial increase in the domestic supply of most high-quality materials and technology—such as specialty steels, machine tools, and microelectronics—will take up much of the 1980s. They probably do not expect the economically strapped East Europeans to provide any immediate alternative to most Western goods and services. [redacted]

Potential for Change in Trade Policy

Although the USSR appears intent on attaining increased self-sufficiency and a greater reliance on Western Europe for those goods that it does import, its trade policy is probably not set in concrete. Differences within the Soviet hierarchy over the proper approach to trade could—in the context of political maneuvering during the succession struggle and evolving East-West relations—lead to a more expansive trade program or strengthen Soviet resolve to further reduce dependence on the West. [redacted]

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Some political forces within the party and government almost certainly still favor expanded trade with the United States. Among the leaders, party secretary Chernenko, through his public statements, appears to be one of the strongest backers of US-Soviet detente. Some within the government probably still believe that Soviet-US relations can be improved, as suggested by recent comments of some Soviet trade officials and foreign trade experts, and may see expanded Soviet-European trade at the expense of US businesses as eventually reducing Washington's willingness to apply sanctions. The Soviet media have argued for years that US business wants to expand East-West trade and objects to trade restrictions. [redacted]

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Another faction probably favors continued but stable trade and believes that persistent US-Soviet tensions will require that Europe—and to a lesser extent Japan—remain the focus of East-West commerce. Tikhonov and Kirilenko appear to hold this view among the leadership.⁵ Other proponents probably include industrial ministries currently reliant on Western equipment—such as the oil and gas industries—and the military, which almost certainly favors continued imports of defense-related technology. [redacted]

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On the other hand, critics of Western trade almost certainly will retain considerable influence. Many important research and development institutes probably favor greater Soviet technological self-sufficiency, as suggested in a recent speech by Academy of Sciences President Aleksandrov. This view may be shared by some industrial ministries that believe too much Soviet capital is allocated to imports rather than to domestic investment.⁶ In this context, a continued high level of Soviet-US tensions not only would strengthen arguments for focusing on trade with Western Europe but might also prompt a redoubling of efforts to reduce dependence on imports in key economic sectors as a hedge against a possible general souring of East-West relations. [redacted]

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⁵ Tikhonov said in his 26th Party Congress speech in 1981 that the USSR would direct its trade with the West primarily to countries taking "a constructive approach to international economic cooperation," which, he added, thus far excluded the United States.

Kirilenko said in a recent speech that in Western Europe "by no means everyone is disposed" to support US policy on East-West relations. [redacted]

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⁶ In mid-1981, the Minister of Power Machine Building, responsible for developing turbines for gas pipelines, complained publicly that Gosplan over the years had allocated too much for imports of gas equipment and not enough for domestic R&D. [redacted]

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Repression of Soviet Dissidents Increases

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In its latest crackdown on dissent, the Soviet regime indicted one of the three remaining members of the Moscow Helsinki Monitoring Group¹ on a charge of anti-Soviet slander, causing the group to disband on 8 September. The move is part of a crackdown that has affected all areas of dissent—human rights, religion, and Jewish emigration—and has included a major effort to isolate dissidents from foreigners. The increased repression coincides with party secretary Yuriy Andropov's improving fortunes and probably was approved by him in his former role as KGB chief. The demise of the Helsinki Group, while of little practical consequence, symbolizes the success of the regime's long-term policy of repression.

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Coercion of Dissenters

The latest crackdown, which can be dated roughly to March of this year, has zeroed in on the few well-known activists still operating in a relatively overt manner:

- Oleg Popov, of the Moscow chapter of Amnesty International, was forced out of the country.
- Leningrad feminist Natalya Lazarova was given a stiff prison sentence, even though she recanted her views in public (those who recant are usually released or given a suspended sentence).
- The authorities appear to be using a loophole in Soviet law to build a criminal case against Sergey Khodorovich, administrator of the Solzhenitsyn Fund.²

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A diverse group of intellectuals on the fringes of the human rights movement, some with influence in dissident circles, also have been arrested. In an operation reminiscent of Stalin-era police tactics, 50 homes of intellectuals in Moscow were searched during the night of 6 April. Twelve arrests were made and great quantities of *samizdat* material were confiscated.

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¹ The Moscow Helsinki Monitoring Group, which was the leading force in the human rights movement, was founded in 1976 by Yuriy Orlov to monitor Soviet compliance with the CSCE agreement.

² The Solzhenitsyn Fund was set up by Aleksandr Solzhenitsyn to aid political prisoners and their families.

This coordinated effort appears to be a "mopping-up" operation. Some sources speculate that with the main body of the human rights movement out of commission, the KGB has lowered its threshold of action, warning those it once ignored and arresting those it once only warned.

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The final blow for the Moscow Helsinki Group came on 6 September, when Sofia Kallistratova was informed that she would be arrested for her activities on behalf of the group. The maximum sentence for the charge she is threatened with is three years in prison; but the 75-year-old Kallistratova is in poor health, and, if she is brought to trial, she probably will receive a light or suspended sentence. The other two members of the group were spokeswoman Yelena Bonner, who spends most of her time in Gor'kiy with her husband, Andrey Sakharov, and Naum Meiman, a 67-year-old Jew who has been trying to emigrate since 1974.

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Harassment of Jews

Jewish "refuseniks" (those who have applied to emigrate but have been refused permission) also have come in for increased harassment. Jews in Moscow and Leningrad have received warnings to cease meeting with foreigners or face arrest. The latest form of retribution taken against Jewish scientists who seek to emigrate is the revocation of academic degrees. In most cases, applicants are automatically fired from their jobs and are also banned from lecturing, teaching, or publishing the results of research.

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The decline in Jewish emigration, which began in 1979, has been precipitous. The projected total for 1982 is barely 3,000 as compared with 9,100 in 1981 and 20,300 in 1980 (see chart). This is the lowest level of emigration since 1970, making it an increasingly impractical alternative for those wishing to escape the Soviet system.

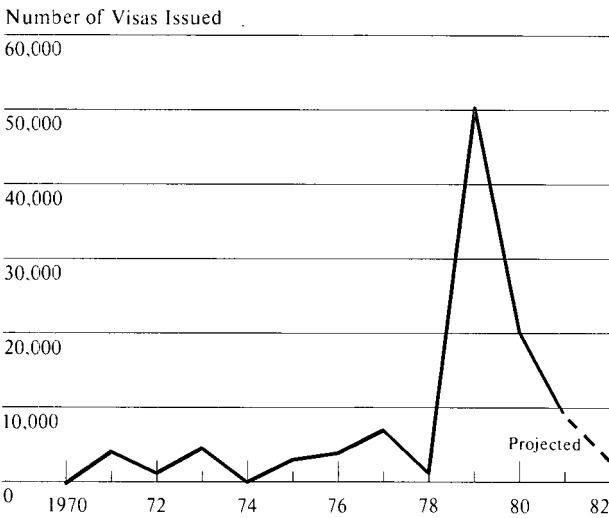
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Jewish Emigration From the USSR, 1970-82



[Redacted]
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Repression of Religion

Despite its limited influence, the growing popularity of religion is causing concern among the leadership.

[Redacted]
[Redacted] increasing numbers of young people are seeking out the church or using it as a means of showing dissent. [Redacted]

Baptist and Pentecostal sects are perhaps the fastest growing denominations, with many young people and blue-collar workers in the provinces joining their ranks. The Russian Orthodox Church is experiencing some revitalization, as many Russians look to it to rediscover social and cultural roots and gain a sense of national pride. In Lithuania, the Catholic Church, which is inseparable from Lithuanian nationalism, has developed a fairly unified stance toward the atheistic state and demonstrates a degree of militancy in the cause of religious freedom. In the western Ukraine, the underground Uniate (Roman Catholic) Church is quite strong. Even in Belorussia, where

reports of any type of "anti-Soviet" activity are rare, there is enough religious activity to have prompted a vociferous attack on the Roman Catholic Church in a recent issue of the republic's main newspaper. [Redacted]

The authorities have expressed their concern over religion in two ways. First, they are repressing those most active in the propagation of religion. Baptists, Pentecostals, and Lithuanian Catholics have been severely hit by harassment and arrests, probably because they have been most successful in attracting converts. Harassment has included everything from dispersal of prayer meetings and confiscation of religious literature to beatings and arrests. Children of believers have been taunted and beaten by their classmates, often with the consent of teachers. Three Lithuanian Catholic priests have died under suspicious circumstances in the last two years, and acquaintances believe they were murdered by the KGB. Repression of other denominations is not as intense, but harassment and arrests are common. [Redacted]

Second, a nationwide antireligion campaign has been under way for over a year. In newspapers and on television, in public lectures, and in speeches by some leaders, religion is attacked as a tool of subversion employed by the West. There have been particular emphasis on the dangers of young people being attracted to religion and many calls for more effective atheist education in schools. The propaganda often disparages the personal qualities of religious leaders by claiming they are involved in religion for personal gain or because they are mentally unbalanced. Another theme which has been voiced occasionally is that religion breeds pacifism, which is a direct threat to the national security of the country. This theme seems to reflect the fear that the West European peace movement might find some resonance among young believers in the USSR. [Redacted]

Inhibiting Contact With the West

The regime recently has taken new steps to curtail contact between dissidents and foreigners, particularly Westerners. By cutting off direct-dial telephone service to and from Western countries, the authorities are better able to control telephone contact between

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Soviets and foreigners. Because of constant interference in the mail service, dissidents and refuseniks had increasingly used the telephone to communicate with supporters abroad. [redacted]

In the last several months, there also has been harassment of foreigners on a scale not seen since 1978. In April and again in August 1982, US diplomatic personnel were prevented from keeping appointments with dissidents. They were subjected to abusive language and roughed up. In September, members of an official delegation of the Canadian Jewish Congress were beaten and robbed by unidentified assailants when they attempted to visit a Leningrad refusenik. A US journalist has been expelled, and there have been several crude attempts to intimidate other correspondents. Western tourists who have met with religious believers or refuseniks have received unusually heavyhanded treatment, including threats, strip searches, and interrogations. [redacted]

By cutting off contact with the West, the regime is attempting to strip away the protection this contact provides. Foreign publicity has been the key to the longevity enjoyed by the human rights movement since the signing of the Helsinki Accords in 1975. Without that publicity, dissidents will have to rely on their own resources in facing the regime. [redacted]

Who Is Responsible and Why?

The intensified crackdown on dissent has coincided with Andropov's ascendancy and has picked up steam since his move to the Secretariat and assumption of the ideological portfolio. Many Soviet dissidents, however, blame the increased repression on the new KGB Chairman Vitaliy Fedorchuk, who as KGB chief in the Ukraine gained a reputation for ruthless suppression of Ukrainian nationalism and other forms of dissent. Fedorchuk's reputation as a hardliner on dissent may deflect domestic and international criticism from Andropov, but the crackdown probably was approved by him. As former chief of the KGB, Andropov supervised a policy of harsh repression of dissent which has been carried out with varying degrees of severity since 1977. [redacted]

Foreign and domestic policy considerations both probably played a part in the decision to increase repression at this time. With the US-Soviet relationship already severely strained, the Soviets may feel that they have nothing to lose by intensifying the crackdown and that any bad press incurred will abate over time, as it has in the past. On the domestic side, the leadership may wish to limit the chances that dissent-related problems will arise during the delicate succession process. In addition, there are indications that the leadership is becoming increasingly worried about popular unrest due to consumer frustrations and other social ills. By tightening down on dissenters, the regime may hope to dissuade members of the general population who might decide to speak out on "bread-and-butter" issues. [redacted]

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Briefs

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Further Cuts in Soviet Oil Exports to Allies? [redacted]

[redacted] the USSR has advised Czechoslovakia and East Germany that it will reduce further its crude oil exports to those countries next year. The cut in deliveries to Czechoslovakia is rumored to be about 16,000 barrels per day from this year's level. [redacted]

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We cannot confirm that Moscow intends to implement a new round of cuts. The USSR reduced by about 10 percent its planned deliveries for 1982 to East Germany, Czechoslovakia, and Hungary. [redacted]

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[redacted] Soviet oil deliveries [redacted] would be cut by another 20,000 barrels per day, in September the GDR announced that Soviet oil exports next year would be 342,000 barrels per day, which we believe is the 1982 level. Moscow probably is concerned over stagnating domestic output and declining availability of oil for hard currency sales, but it will have to weigh these considerations against the effect further cutbacks would have on Eastern Europe, which already faces serious economic problems. The annual cost to Czechoslovakia of replacing 16,000 barrels per day of crude oil at current world market prices would be about \$200 million. [redacted]

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Sakhalin Offshore Oil Development [redacted]

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Reacting to the impact of the US embargo on oil and gas goods and technology, Japan's Sakhalin Oil Development Corporation (SODECO) is proposing a new strategy in proceeding with the offshore oil projects being developed jointly with the USSR. Two offshore fields, Chaivo and Odoptu, are affected. [redacted]

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[redacted] the Chaivo project can be completed with existing Japanese and West European technology, but that exploration and development of the geologically complex Odoptu field will be difficult without US technology. [redacted]

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The Japanese proposal would allow SODECO to proceed with development of the Chaivo field (which contains over half of the area's combined oil and gas condensate reserves and nearly two-thirds of its natural gas reserves) while still complying with the US embargo. A hold on development of the Odoptu field is probably acceptable to SODECO [redacted]

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**Backward Step
in Energy
Conservation**

In an unusual move, Moscow has reversed one of the energy-saving measures enacted in 1981 and allowed much of the heavily populated and industrialized western USSR to revert to Moscow local time. The conservation measures involved adopting "summer" daylight saving time nationwide and forcing many areas to the east of Moscow to set clocks according to their own time zone rather than Moscow time, which is more convenient for transportation and communications. As a result, peak demand for electricity was to be lower, as each time zone drew maximum energy from the national net at different times, reducing the need for expensive supplemental generators. The Soviets estimated annual energy savings at 2.5 billion kilowatt-hours, or about 1 million tons of fuel.

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Apparently this conservation measure was so unpopular in the affected regions that it caused the public and the local executive committees to complain to the central government.

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**Soviets Want Closer
Relations With
France**

Soviet candidate Politburo member Boris Ponomarev Moscow "is prepared to do everything necessary . . . to give Soviet-French relations the necessary dynamism that had been typical of them for many years." Ponomarev contended that bilateral relations are not now as positive as "existing opportunities" permit. These opportunities include France's defiance of US economic sanctions and an alleged similarity of views between Moscow and Paris on Middle East problems. French Socialist Party (PS) officials told US Embassy officials in Paris late last month that their party had responded favorably to recent Soviet requests for more frequent interparty contacts.

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Moscow has steadily turned up the volume on its calls for a return to the "special relationship" that the USSR enjoyed with France under President Mitterrand's predecessors. Trade problems and Mitterrand's fundamental distrust of the Soviets will continue to affect relations, however. A significant improvement in the PS-CPSU relationship probably would make the French Communist Party's role in the government even less important to Moscow.

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**Gromyko Rejects
Japanese Territorial
Claims**

Soviet Foreign Minister Gromyko, during his meeting at the UN with Japanese Foreign Minister Sakurauchi on 4 October, reaffirmed Moscow's refusal to recognize Tokyo's claim to the disputed Northern Territories. Gromyko, according to Japanese officials, also revived the idea of a treaty of "good-neighborliness" as a substitute for a peace treaty—a notion that the Soviets originally proposed in 1978, when the two sides could not settle their territorial dispute. He appeared cool to the idea of his visiting Tokyo in the near future—telling Sakurauchi he did not feel the atmosphere in Japan was favorable now, particularly when the Japanese keep bringing up the territorial dispute.

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Viewpoint

Soviet Economic Growth Prospects: An Alternative View

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Our preliminary projections show that Soviet economic growth will continue to decline in the 1980s. We expect annual GNP growth to average less than 2 percent per year in the rest of this decade. This slower growth will sharpen competition between the military and civilian sectors of the economy for claims on resources.

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Our major tool for deriving these growth trends is a large-scale econometric model called SOVSIM. The only other such model currently in use is SOVMOD, which is maintained and used by Wharton Econometric Forecasting Associates (WEFA). The purpose of this article is to compare our results with those obtained by WEFA and briefly explain the reasons for the differences. We first present our results to provide a reference point for the comparisons.

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CIA's Economic Projections

Our projections depend on a number of baseline assumptions.¹ The findings of ongoing research on selected topics may result in changes in the assumptions that concern the economic environment, and, in the coming months, new information is likely to clarify Soviet policy decisions that affect other assumptions. In brief, the results presented here are tentative.

Sources of GNP Growth. Our projections indicate that Soviet economic growth will continue to decline

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in the 1980s as the average annual rates of increase of labor and capital decline and productivity increases fall short of plans (see graph).

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Substitution of gas for oil will continue, and production of nuclear power will increase. Nonetheless, according to our projections, these trends will not be sufficient for the Soviet economy to avoid a serious shortage of oil in the second half of the decade.² The oil gap will represent 10 to 20 percent of oil requirements but less than 5 percent of total energy requirements. This emerging shortfall will raise yet another problem for Soviet planners, although even without this bottleneck Soviet economic growth would continue to decline.

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Prospects for industry, which contributes roughly 35 percent of the national product, are dismal compared to its performance in the 1970s. Besides facing the economy-wide problems of slower growth of labor, plant and equipment, and other inputs, industry also must cope with a rapid depletion of raw materials production capacity in traditional areas. This means that more and more investment resources are needed just to maintain production levels as new raw material deposits are developed in the high-cost areas of Siberia.

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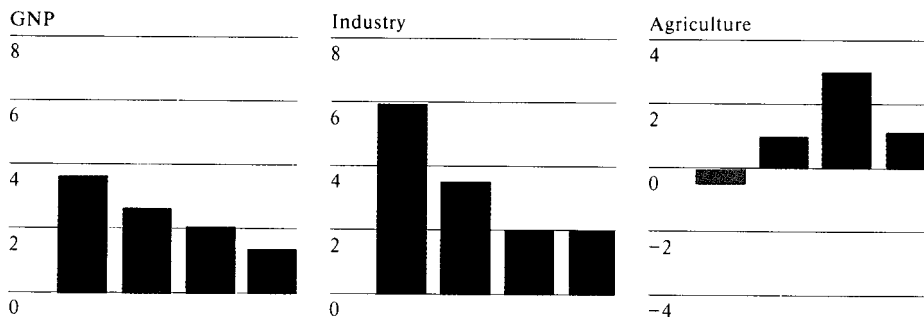
² Our calculations result in an *ex ante* oil shortage in the Soviet economy. *Ex post*, such shortages are rarely observable because of adjustments made in the economy over time. The adjustments the Soviets could make include increased investment for energy conservation and energy production or less than full utilization of production capacity. Our projections assume the main Soviet adjustment would be through the latter course of action.

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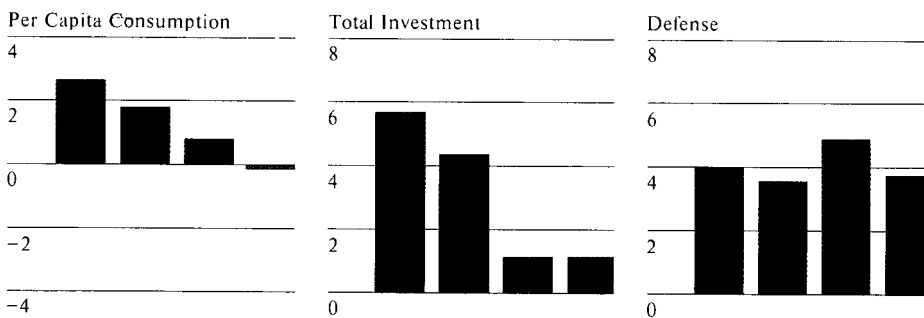
CIA Projections of Soviet Economic Performance^a

Average Annual Growth (Percent)

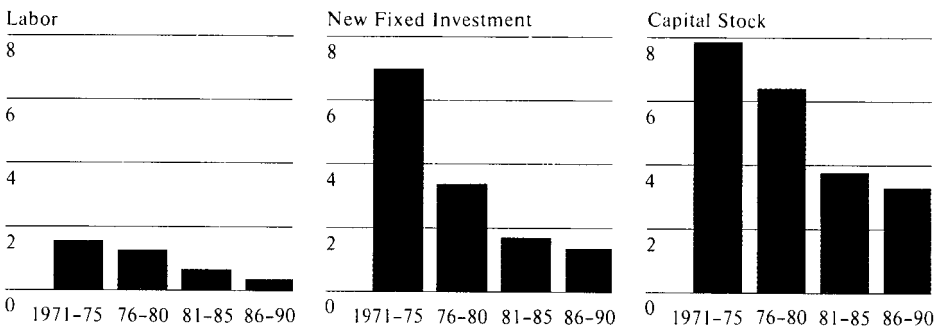
Sources of GNP



Uses of GNP



Key Resources



^aGrowth of defense is assumed, rather than projected by the model.

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Agriculture is still the most unstable sector of the Soviet economy, with performance in any year being highly dependent on weather conditions. Because weather conditions in the years ahead cannot be predicted, future crop yields are estimated on the basis of historical trends. Thus, the growth estimate for farm output for 1981-85 (3 percent) is deceptively high because it primarily reflects a return to trend-line crop yields in 1985 compared to the below-trend yields of 1980, which resulted from poor weather.

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Uses of GNP. Slower growth of production means slower expansion in the availability of goods and services to be divided among competing claimants—resources for future growth (investment), the consumer, and defense (see graph).

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If Soviet defense spending in the 1980s increases at about 4.5 percent per year, consumption and investment will expand at record low rates of increase for the postwar period. The immediate impact of slower expansion of investment is fairly small. Nevertheless, the rate of increase in production capacity is reduced, because growth in the *stock* of plant and equipment will eventually follow growth in the *flow* of investment goods.

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Despite the emphasis in the 1981-85 Plan on increasing the supply of consumer goods and services, the arithmetic implies negligible improvements in average living standards, especially in the second half of the decade. This will have an adverse effect on labor productivity, as continued increases in money wages, taken together with large holdings of personal savings, create a reservoir of purchasing power that greatly exceeds the amount of goods and services available for wage earners to buy.

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As a result of defense growth exceeding growth of GNP, the defense burden increases to over 15 percent in 1985 and 17 percent in 1990.

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Key Resources. We expect the increase in the labor force in the 1980s to be less than half of what it was in the 1970s—roughly 9.5 million compared with nearly 20 million (see graph).

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Our projections indicate that new fixed investment in the 1980s will increase at about one-third the rate of

the 1970s because of the slower growth in production of machinery and new construction starts and the rising share of durable goods going to the military. The greatly increasing share of investment going to the energy sector will depress the expansion of investment in the nonenergy sectors.

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WEFA's View on Soviet Economic Trends

The WEFA model of the Soviet economy was first developed in 1974.³ Although it has gone through several versions since that time, the essential structure of the model has not changed. WEFA's early work provided us with a useful guide in our own initial research.

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Today the two models differ substantially in their descriptions of the Soviet economy; therefore, it is somewhat surprising that the results they yield—at least in the aggregate—are so similar: we project average GNP growth in 1981-85 of 2.1 percent per year, while the WEFA model yields 2.3 percent per year. Nevertheless, at lower levels of aggregation, the two estimates are quite different. The most important areas of divergence are: (1) domestic energy requirements, (2) productivity, (3) uses of GNP, and (4) trade with the West.

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Difference in the Energy Balance. We have compared the energy picture that emerges from our baseline projections with the most current estimates available from WEFA (table 1).⁴ Our assumptions on aggregate energy production are fairly close to those made by WEFA, but we differ in projections of energy required, energy consumption, and net energy exports.

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Using our projections of Soviet plant and equipment, and allowing for a continuation in the historical trend of improvement in the efficiency of energy use, we project that Soviet energy requirements in 1981-85 will increase at 3.3 percent per year. WEFA projects

³ See Donald W. Green and Christopher I. Higgins, *SOVMOD I: A Macroeconometric Model of the Soviet Economy*, 1977, for a full description of this initial research.

The most recent WEFA projections appear in *Centrally Planned Economies Outlook*, September 1982.

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Table 1
CIA and WEFA Energy Projections for the USSR

	Average annual rate of growth (percent, 1981-85)		Million barrels per day, oil equivalent, 1985	
	CIA	WEFA	CIA	WEFA
Energy production	1.9	1.6	30.5	29.5
Energy required	3.3	1.0	27.9	23.9
Energy consumption	2.1	1.0	26.3	23.9
Net energy exports	-0.5	4.5	4.2	5.6

an average growth of only 1 percent. The difference amounts to around 4 million barrels per day of oil equivalent (b/doe) in 1985. The WEFA estimate is based on the judgment that the Soviets will be able to *sharply* improve their efficiency in using energy, while our projection basically reflects a continuation of historical trends.⁵ [redacted]

In the WEFA projections, energy consumption will always be the same as the energy requirement. This is not the case in our model, and our preliminary results indicate a shortfall between energy requirements and availability of about 1.5 million b/doe by 1985. Consequently, the domestic economy is forced to absorb the impact of this bottleneck in energy availability through reduced production activity. The differences in energy consumption estimates also result in corresponding differences in net energy exports. With its substantially lower energy consumption estimate, WEFA projects considerably higher net energy exports (shown in table 1) than we do. [redacted]

Difference in Productivity Projections. We have a higher labor force growth assumption than WEFA because we allow for increased participation of pensioners in the 1980s. WEFA's assumption simply reflects anticipated growth in the able-bodied population, with which we are in agreement. Because its projection of labor force growth is about one-half of

⁵ Average growth of domestic energy use was 3.7 percent per year during 1976-80 and 4.8 percent per year during 1971-75. [redacted]

ours, while currently its projections of GNP growth are about the same as ours, aggregate labor productivity growth in the WEFA projections must be roughly twice that in ours. [redacted]

The production relationships—that is, the rates at which capital and labor are transformed into goods and services—in our model reflect the comparatively poor performance of the Soviet economy in the second half of the 1970s. Apparently the WEFA production relations reflect a longer period of history, which includes earlier years when productivity growth was more rapid. Therefore, WEFA's projections implicitly assume higher productivity of Soviet labor and plant and equipment in the various producing sectors than we do. [redacted]

Difference in Uses of GNP. Both models treat consumption as a residual in the accounting for end uses of GNP. Thus, given that the CIA and WEFA GNP and defense growth projections are about the same, the WEFA projection of consumption growth of just 1.3 percent per year (which implies negligible per capita improvements) must be explained by the higher WEFA estimate for investment expansion. [redacted]

In our projections, total investment is calculated as the difference between production of investment goods (machinery and construction) and other claims on this production, such as those of the military and exports. WEFA's model incorporates a similar relationship. Nevertheless, the WEFA estimate of investment growth in 1981-85 is substantially higher than our projection (table 2) and does not appear to be consistent with the Soviet plan.⁶ [redacted]

The Soviet economic plan does not necessarily contain accurate projections. In the case of investment, however, we believe that our projection receives support from being close to the Soviet plan because, as a use

⁶ The CIA and WEFA projections of investment shown in table 2 cannot be compared directly to the projection based on the Soviet plan because of a difference in the way investment is measured. Some rough adjustments to take account of this difference suggest that the WEFA projection would be about twice the average growth implied in the Soviet Five-Year Plan, while our own projection is just slightly greater than the Soviet figure. [redacted]

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Table 2
CIA and WEFA Economic Projections for the USSR

	CIA	WEFA
<u>AARG ^a (percent) 1981-85</u>		
Macroeconomy		
GNP	2.1	2.3
Industry	2.0	2.7
Investment	1.2	2.5
Consumption	1.7	1.3
<u>Billion dollars 1985</u>		
Trade with the West ^b		
Exports	28.9	51.8
Imports	33.6	55.0
Net hard currency debt	21.4	14.6

exports of other commodities such as machinery and manufactured consumer goods.⁸ Our assessment is that the USSR has little potential in this area, given the low marketability of its products and the chronic shortage of goods in the domestic economy. We assume that there will be no real growth in Soviet nonenergy exports to the West. [redacted]

The higher WEFA projections for imports are not explained by different borrowing assumptions, because WEFA's net debt number in 1985 is substantially below ours. [redacted] 25X1

⁸ WEFA, *Centrally Planned Economies: Long-Term Projections*, fall 1981, p. 9. [redacted]

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^a Average annual rate of growth.

^b The countries involved are hard currency partners in the case of CIA's projections and non-CPE (centrally planned economies) trading partners in the case of WEFA's. The difference consists of countries such as Finland and India, with whom the Soviets trade on a nonconvertible currency basis.

[redacted]

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of GNP, investment is subject to more control by policymakers than, for example, productivity growth. The faster investment growth obtained by WEFA probably is explained by greater expansion of both production and imports of investment goods than we calculate. [redacted]

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Difference in Western Trade. Both models estimate imports from the West according to Soviet ability to purchase them.⁷ This ability depends in large part on energy exports. Therefore, WEFA's substantially higher projections of exports and imports (table 2) are explained mostly by its higher estimate for energy exports (table 1). WEFA also projects some growth in

⁷ In the WEFA projections, Western trade is defined as trade with non-CPE (centrally planned economies) trading partners, while in our projections it is defined as trade with hard currency trading partners. The difference consists of countries such as Finland and India, with whom the Soviets trade on a nonconvertible currency basis. [redacted]

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