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CENTRAL INTELLIGENCE AGENCY
OFFICE OF NATIONAL ESTIMATES

4 December 1954

STAFF MEMORANDUM NO. 92-54

SUBJECT: Princeton Consultants' Meeting of 18-19 November 1954.

Participants

Chairman

Abbot Smith

ORR

Rush Greenslade*

Leo Sweeney*

Consultants

Edgar M. Hoover*

Max F. Millikan*

Philip E. Mozely

Joseph R. Strayer

William L. Langer**

George A. Lincoln**

William H. Dunham**

William Reitzel**

OIR

Howard Wiedemann

Staff Members

John Huzar

William P. Bundy**

Robert W. Komer**

Board of National Estimates
DeForest Van Slyck

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I. TREATMENT OF THE SOVIET ECONOMY IN NIE 11-4-54 AND IN FUTURE NIE'S.

1. The bulk of the morning session on 18 November, covered here only briefly, was devoted to highly technical and specialized aspects of measuring Soviet GNP, particularly the methodological problems involved in getting behind ruble values, in determining their meaning under Soviet conditions, and in making valid international comparisons. Some of the peculiarities of the Soviet price structure were pointed

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** 19 November only

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cut: the distortion resulting from large turnover taxes, the relatively small role that prices in the USSR play as an allocation mechanism, and the wide disparities between the price structure of the USSR and the West. It was shown that these factors greatly complicate the task of finding strictly comparable measures of Soviet and Western economic activity. It was generally agreed that since there was no ideal set of prices valid for all economies, an effort should be made to present different breakdowns of Soviet GNP in future estimates, one using ruble values and representing Soviet relationships, the other using dollar values and representing US standards. The former method would be helpful in determining economic trends, the latter in estimating capabilities.

The Soviet Growth Rate

2. In the afternoon session the discussion ranged over the whole area of Soviet economic development, and attention was focused on methods of improving the economic analysis in future estimates. Mosely made the recommendation, which was supported by Millikan, that future papers should examine more closely the effect on the Soviet growth rate of alternative allocations of investment. Millikan added that more attention should be paid to the impact of different patterns of growth on Soviet military potential and to the more difficult problem of determining the relationships between living standards and economic growth. To illustrate his point, Mosely stated that the transfer of resources to the small and underdeveloped light industrial sector might offset any possible decline in the growth rates of other industrial sectors, and that, consequently, there might not be an over-all decline in the growth rate of Soviet GNP between 1956-59, as was estimated in NIE 11-4-54. Sweeny countered this argument by pointing to the relatively smaller capital returns in Soviet light industry than in heavy industry, as well as to the tighter manpower situation during 1956-59.

3. Millikan explored some of the methods that could be used to estimate the effect of alternative patterns of investment. He supported Sweeny's proposal that more attention be devoted in future estimates to examining the capital structure of the Soviet economy, the sectoral breakdown of capital assets, and the composition of capital investment, particularly the extent to which the investment flows to the various sectors of the economy were competitive or complimentary. Millikan argued that this kind of structural analysis could provide a basis for determining the relationships between investment flows and resultant increases in

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output and for estimating the effects of various alternative allocations of investment. He made the point also that input-output analysis was superior to national income analysis in solving this kind of problem. (It should be noted in passing that ORR has initiated a study of Soviet capital structure, but it will probably not be completed before the preparation of the next Soviet estimate.)

Soviet Agriculture

4. Smith expressed the need for a clear, definite, and agreed estimate of Soviet agricultural capabilities. In this connection, Millikan suggested that future papers should contain more economic geography in order to ascertain the inherent physical capabilities of Soviet agriculture. He suggested that attention be directed also to the question of the probable Soviet reaction to continuation of the agricultural lag. The possibility of a shift in the pattern of Soviet comparative advantage in trade, from agricultural products to capital goods, should not be overlooked in future papers. Mosely observed that, with the exception of the program to increase fertilizer output, present Soviet agricultural policy appeared to be concentrating on short-term goals, as evidenced by the land expansion campaign. He noted that the present tactic in the new agricultural areas was probably regarded as the most expedient method of rapidly building up a cushion of grain reserves.

Economic - Military Capabilities

5. To a question raised by Greenslade about the economic background of Soviet military capabilities, Millikan replied that examination of aggregate economic costs or effects of Soviet military effort was the "key-stone of the intelligence arch". In regard to this problem, Millikan noted, the vast economic research program now in progress was not very meaningful. He asserted that research was required on such subjects as the recuperative capabilities of the Soviet economy and Soviet economic capabilities to support a major ground offensive over both the short and long run. Mosely suggested that an improvement could be made in the comparisons of Soviet and Western military effort. He recommended that our estimates compare the "military-technological thrust" of the USSR and the West, and not the pay and maintenance of troops. Sweeney pointed out that such an estimate had been attempted by ORR on the basis of estimates of Soviet military end-item production, but that inconsistencies remained between the estimates of Soviet military procurement based on budget analysis and the estimates of military end-item production.

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~~CONFIDENTIAL~~~~SECRET~~II. KEY WEST GERMAN PROBLEMSProspects for Ratification of the Paris Accords

6. Strayer felt that we could not yet be sure of ratification. While the individual obstacles might not be too great, although the Saar problem alone would scuttle ratification, their cumulative effect might be formidable. Lincoln agreed, adding that Adenauer's death could have a decisive effect; also what President Eisenhower or Mendes-France said or did not say about a unified Germany. Both Langer and Dunham felt that the importance to the Germans of a unified Germany was played down too much in the paper; the unification question definitely affects ratification prospects. There was general agreement that no politician would dare to oppose unification -- everyone was for it. But in the hands of a demagogue, this issue could be a potent threat to ratification, and also a running score in the future. Langer felt the Paris Accords would go through, since Adenauer would not have signed them if he thought he could not get them through the Bundestag. Although the Consultants were apprehensive over the many stumbling blocks, the majority felt that the Accords would be ratified.

Orientation and Influence of the Military Leaders

7. Langer said it would not be possible for the new army to adopt the role of the old one. The heart of the control lies in the NATO and WEU ties; also the watch dogs in the Bundestag would be vigilant. The generals may try, but it will not be possible to repeat the past performance. Van Slyke and Dunham suggested that we might have to watch the civilian element more closely than the military. It was also suggested that the real problem might be a lack of enthusiasm for rearmament, rather than renaissance militarism.

8. Reitzel agreed with this, and said that even if both the government and the army were aggressive, the international situation was entirely different, particularly from 1938-39. He commented that it was the international situation in 1938 that offset the German military inferiority vis-a-vis the Czechs, and gave Hitler the confidence to act.

9. Lincoln suggested that if each class of conscripts were given a dose of unification propaganda once a month in an I & E program it might,

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in time, offset a large segment of the population. Mosely argued, however, that while the Weimar Army had been responsible only to Hindenburg as chief of state, the new army would be responsible to the cabinet and hence to parliament. There would therefore be a subjection of the military to civilian control never before achieved in German history.

10. Langer considered that it was not so much the army per se, but the government plus the army that was important. Bonn was likely to bring continuous pressure on the West, particularly over recovering East Germany and the eastern territories. Lincoln and Reitzel agreed. In their view the new Germany would not necessarily be logical about this issue; moreover, the Germans would be in a position to precipitate a crisis between NATO and the USSR and the fact that they would be unable to control the situation thereafter would not deter them. Langer pointed out that the new Germany might want to make a deal with the Bloc -- a possibility would be Western concessions in the Far East in return for unification. All agreed that Germany would be a dynamic element in the Western coalition and very difficult to control. This possibility that Germany might drag NATO eastwards was what really frightened the UK and France.

11. Mosely agreed in general, but pointed out that since there is no really practical way of achieving unification and since all parties actually would agree on the question once the Paris Accords were ratified, the issue would simmer down. Strayer disagreed, pointing out the use which a demagogue could make of the issue.

12. It was agreed that since the Soviet conditions would be so disadvantageous to Germany, the latter would not make a deal on unification. Smith said that a permanently divided Germany would be a frustrated country; this would be fertile ground for another Hitler.

The Possibility of a Grand Coalition

13. Dunham pointed out that Adenauer had said that a Grand Coalition would leave the voter little for which to vote -- as in France and Italy. Dunham felt that a Grand Coalition would jeopardize democracy.

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In any case he had strong doubts on the strength of democracy in Germany; the present government had been in operation for only five years, the Weimar Republic lasted only 12 years, and seventeen years of German democratic experience was not much to go on.

14. The main conclusions of the discussion were:
- a. Although there are many stumbling blocks, the Paris Accords would probably be ratified.
 - b. The German Army per se was not so much to be feared as the Bonn government plus an army. This combination would bring continuing pressure to bear within the Western coalition.
 - c. Unification would continue to be a goal for all parties.
 - d. The Bonn government's drive for unification would be the most trying problem for the Western coalition. (Mosely disagreed.)
 - e. A Grand Coalition is unlikely. But if it did come, there would be no change in foreign policy.

III. YUGOSLAVIA

15. Mosely stated that the most important fact of the new era of Yugoslav-Bloc relations was that it was not the normalization of relations between Communist Parties, but between states. Then turning to the question of Tito's policy, he said that Tito's response to Bloc overtures was an effort to be flexible and retain freedom of movement. Another aspect of this policy was Tito's desire to build up better relations with non-imperialist, non-Cominform states such as India and Burma. It is part of his search for a standing ground that is not clearly capitalistic in the US sense, and at the same time is not Cominformist. It is not a Third Force, but is a search for a place outside the Cominform. Langer felt that Tito saw the situation as an opportunity to be a mediator between East and West.

16. Mosely said that Tito did not feel that there had been a basic change in Kremlin policy, but that the Soviets want a temporary period of peaceful coexistence. He is taking advantage of the lull to develop

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a separate niche for himself. Moreover, the softening of the Soviet attitude toward Yugoslavia pays internal dividends -- it will enhance his internal prestige. In conclusion, he said that Tito was not between East and West; he is a variant on the Western position. If he were really between East and West he would have to give up the Balkan Alliance.

17. Strayer said that, in the event of war, Tito would carefully examine the odds and then make his terms, if necessary with the Bloc. Lincoln asked what Tito's motive would be in returning to the Bloc; he added that in his opinion, no motive was apparent.

18. Mosely said that the Kremlin was probably aware that its overtures to Tito would generate suspicions of him in the West. Langer and Mosely felt that it was just another facet of the Soviet peace offensive.

19. Mosely then turned to the internal effect of the new policy. Now that the big foreign bogey is gone, the party may wish to push ahead with its program in the countryside. But the bulk of the population, which is anti-Communist, will want more freedom. Thus Tito may have internal trouble, particularly since he has thus far failed to solve Yugoslavia's most pressing economic problems.

20. The Consultants were all agreed that it was unlikely that Tito would return to the Bloc.

IV. SOME FAR EASTERN QUESTIONS

21. Lincoln said he felt that Nehru's declaration that India's interests go to the eastern frontiers of Laos and Cambodia sounds reasonable. Nehru must sense that if the Chinese Communists overflow into the rest of Southeast Asia, India's prestige might be greatly reduced. It was not a military question, except insofar as military force lends itself to a posture of power.

22. Langer said that while the Viet Minh will do their best to get South Viet Nam, they will go very slowly on Laos and Cambodia. Strayer

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agreed; he doubted that Communist China would want to acquire these remote areas if doing so would alienate India.

23. The Consultants agreed that France would not fight for South Viet Nam.

24. Langer urged that a study be made to ascertain whether the close-out in Korea had led to a back-lash in Indochina. Did the release of their forces in Korea permit the Chinese Communists to give increased military aid to the Viet Minh, or was the impact of the Korean truce on Indochina merely political? He suggested that this question offered an opportunity for O/NE to test the validity of its estimates, something it ought to be doing periodically, and particularly whenever an intelligence problem, as in this case, was closed out by the movement of events.

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