

CIA Assessments of the Soviet Union: The Record Versus the Charges — Central Intelligence Agency

An Intelligence Monograph by Douglas J. MacEachin

Foreword

The mission of the Center for the Study of Intelligence, the publisher of this monograph, is to promote a broader understanding and more open discussion of the intelligence profession. This includes conducting research; writing intelligence history; reviewing historically valuable CIA records for declassification; coordinating Intelligence Community declassification review; supporting the teaching of intelligence; sponsoring conferences; and publishing the journal *Studies in Intelligence* as well as books, monographs, and a newsletter on intelligence issues.

This monograph by Douglas MacEachin is a unique contribution to the growing literature on intelligence analysis, and the Center is pleased to make it available. All of the sources he cites were either originally unclassified or have been declassified during the last few years.

Readers will also be interested in knowing that a much larger body of once highly sensitive intelligence analysis on the USSR has also been released to the National Archives. More than 450 National Intelligence Estimates on the USSR, the Communist bloc, and international communism have been sanitized and made available. Most were declassified in 1993 and 1994, and another 59 that assess Soviet conventional military capabilities were made available earlier this year. Other estimates on Soviet military, civil defense, and space exploration efforts are in declassification review.

Furthermore, the Center plans to embark on a new systematic declassification review, consistent with the provisions of Executive Order 12958. Significant analysis on the USSR that was completed by CIA's Intelligence Directorate from the Agency's inception in September 1947 through the collapse of the USSR in August 1991 will be reviewed for declassification. We cannot project how long this effort will take, but it will remain one of the Center's highest declassification review priorities.

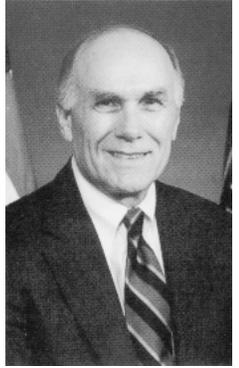
With such a comprehensive body of records in the public domain, historians and other scholars will be able better to judge how well intelligence analysts—both in CIA and elsewhere in the Intelligence Community—performed over the years in understanding the USSR and supporting policy officials in administrations from Harry Truman to George Bush.

A Note About the Author

Douglas J. MacEachin, the author of this monograph, was Deputy Director for Intelligence at the Central Intelligence Agency from March 1993 until June 1995. He joined the CIA in 1965 and, for the next 24 years, worked mainly on research and analysis of Soviet and European security affairs. He was Director of the Office of Soviet Analysis from 1984 until March 1989, when he became Special Assistant to the Director of Central Intelligence for Arms Control.

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What Did the CIA Say?

In the aftermath of the political breakup of the Soviet Union, charges that CIA was oblivious to the deteriorating economy and corroding societal conditions that set the stage for the breakup have taken on the aura of conventional wisdom. *The New York Times*, for example, asserted in an editorial on 22 October 1995 that: "The CIA considered the Soviet Union an economic power when it was actually an economic wreck." **1** An article in *The Wall Street Journal* on 27 July 1995 by Adam Wooldridge stated that the CIA-in the face of readily available evidence to the contrary-"continued to endorse the myth that the communists had transformed an agricultural backwater [the USSR] into a mighty industrial power capable of ever higher levels of economic development." **2** Neither of these assertions is accompanied by examples where CIA expressed the judgments it is accused of making.

"...we find it hard to believe that anyone who has read the CIA's annual public reports on the state of the Soviet economy since 1975 could possibly interpret them as saying that the Soviet economy was booming." (HPSCI Review Committee, 18 November 1991.)

Wooldridge's article was a review of a book-*The Tyranny of Numbers* by Nicholas Eberstadt **3**-which includes similar, albeit less strident, criticisms of the CIA. The Foreword to Eberstadt's book was written by Senator Daniel Patrick Moynihan, **4** who has been perhaps the most prominent and influential critic of CIA's performance on the Soviet Union.

The statements from *The New York Times* and *The Wall Street Journal* are fairly representative of the charges levied at the CIA since the breakup of the Soviet Union. Such characterizations, however, are in direct contradiction to the record of what the CIA said in its analytical products. In mid-1991, the House Permanent Select Committee on Intelligence (HPSCI) commissioned a group of economic experts from nongovernment organizations to review CIA's analysis of the Soviet economy. Their final report described what they found to be flaws in certain aspects of CIA's methodologies for quantitative measurements of Soviet performance, especially the scale for comparing it to that of the United States (see the discussion beginning on page 7 entitled "The Tyrannical Numbers"). But this "review committee" also stated in its report submitted in November 1991:

Most reports [from 1979] through 1988 on the course of the Soviet GNP and on general economic developments were equally satisfactory: accurate, illuminating, and timely. In fact, we find it hard to believe that anyone who has read the CIA's annual public reports on the state of the Soviet economy since 1975 could possibly interpret them as saying that the Soviet economy was booming. On the contrary, these reports regularly reported the steady decline in the Soviet growth rate and called attention to the deep and structural problems that pointed to continued decline and possibly to stagnation. **5**

That HPSCI report was unclassified. The CIA "annual public reports" it referred to were unclassified products disseminated by or through the Joint Economic Committee (JEC) of Congress. These reports-in their entirety, including formal documents submitted for the record, oral testimony, and transcripts of the discussions and question and answer sessions-have been publicly available since their origin. Eighty-six other unclassified papers by CIA analysts on Soviet economic topics were published in JEC compendiums between 1962 and 1987. All of these also were unclassified from their origin and are and have been available for review by anyone wanting to examine CIA's performance.

About two dozen previously classified CIA papers-produced mainly in the 1980s-have been released during the past few years. Some of these, before their declassification, were reviewed by the HPSCI Review Committee, and a few of them were described in its unclassified report. Nearly half of them were used in a Harvard University case study published in mid-1994. **6**

The titles and excerpts from these declassified CIA papers, in combination with the annual unclassified JEC reports, constitute the bulk of the major CIA studies of the Soviet economic and societal conditions from the mid-1970s through the end of the 1980s. All of these declassified products and the majority of the unclassified annual JEC reports submitted from the mid-1970s through the end of the 1980s-36 documents in all-are excerpted in Appendix A. The complete documents are available on request. This material offers a basis for comparing CIA analyses on Soviet conditions and probable future developments during the 1970s and 1980s with what now is known about that period.

"The primary purpose of this monograph is not to 'prove' CIA was 'right.' Rather, the objective is to demonstrate that assertions that CIA got it blatantly wrong are unfounded."

References to the record of what CIA actually said-with notable exceptions such as the Harvard case study, an article in *The National Interest* **7**, and a recent feature in *The Los Angeles Times* **8**-have been conspicuously absent from most public discourse on CIA's analytical performance on the Soviet Union. The declassification of the documents has been preemptively denigrated by some as selective release in an effort to "prove CIA got it right."

While most of us who were participants in the effort believe the CIA did get most of it right, and are prepared to argue-on the basis of the record-what was right and what was in error, the primary purpose of this monograph is not to "prove" CIA was "right." Rather, the objective is to demonstrate that assertions that CIA got it blatantly wrong are unfounded-that charges that CIA did not see and report the economic decline, societal deterioration, and political destabilization that ultimately resulted in the breakup of the Soviet Union are contradicted by the record. Arguments about who was "how right" are of less use, much as we might wish to engage in them.

As regards the charge of selectivity, the best answer is simply the material itself-its volume and the timespan it covers and the fact that so much of it as far back as the 1970s was unclassified from the outset. (There is, in fact, much additional unclassified material available to readers). These products were simultaneously disseminated to diverse policy agencies and were available to Congressional committees and sometimes specifically sent to them.

There was complete consistency over a decade and a half between the material disseminated in unclassified form and in classified channels. This consistency was specifically cited in the HPSCI Review Committee's report **9**. To posit that CIA maintained a contradictory picture in a separate set of reports that did not become known to the recipients of the documents cited here would mean there was a conspiracy initiated well before one could have known of a need for it.

Certainly there were divergent views and predictions in the CIA-as well as in other parts of the Intelligence Community and in the policy agencies and nongovernmental circles-on the potential impact that the economic and societal problems might have on political continuity in the USSR and on the military threat. But there was no disagreement within CIA's Office of Soviet Analysis as to the fact of those enormous problems.

"From the mid-1970s ... the CIA described a Soviet Union plagued by a deteriorating economy and intensifying societal problems."

What Did CIA Say?

The story that the CIA presented over the decade and a half before the political breakup of the Soviet Union can be broken into three analytic phases. The excerpts in Appendix A are grouped according to these phases.

From the mid-1970s to the eve of Gorbachev's assumption of party leadership in the spring of 1985, the CIA portrayed a Soviet Union plagued by a deteriorating economy and intensifying societal problems. CIA products described the growing political tensions resulting from these failures, the prospect that sooner or later a Soviet leadership would be forced to confront these issues, and the uncertainty over what form this confrontation would take.

These products include the unclassified testimony from each of DCI Admiral Stansfield Turner's annual appearances before the JEC from 1977 through 1980 (Appendix A, references 1-4)-part of the "annual public reports" cited by the HPSCI Review Committee. Turner's testimony and the written submissions for these hearings described a "bleak" Soviet economy for which continued decline through most of the 1980s was "inevitable." The hearing reports include:

- CIA descriptions of how badly Soviet economic performance lagged behind that of the West and the prospect that Soviet leaders would be forced to confront growing conflicts between civilian and military uses of resources and investment.
- CIA assessments that the Brezhnev leadership recognized the potential for larger political repercussions from the economic failure; that the Brezhnev regime (and possibly even an initial successor) was nonetheless likely to attempt to muddle through rather than confront the politically difficult choices necessary to deal with the decline; that muddling through was not a viable option for the longer term; and that by the mid-1980s the economic picture "might look so dismal" that a post-Brezhnev leadership might coalesce behind policies that could include "structural reforms."

Other unclassified CIA publications disseminated in 1977 and 1980 (Appendix A, references 5 and 6) presented the same picture of a deteriorating economy that ultimately could provoke more radical policies.

From the late 1970s through the early 1980s, CIA produced several papers addressing the prospects for "serious economic and political problems" arising from the combined effect of growing consumer discontent, ethnic divisions, a corrupt and incompetent political system, and widespread cynicism among a populace for whom the system had failed to deliver on its promises (Appendix A, references 7 and 8 and 10-13). One of these, for example, described the problems stemming from "long continued investment priorities favoring heavy industry and defense, coupled with a rigid and cumbersome system of economic organization" which "have combined to produce a consumer sector that not only lags behind both the West and Eastern Europe, but also is in many ways primitive, grossly unbalanced, and in massive disequilibrium":

When Gorbachev assumed the Party leadership, the analytic questions "were not whether (he) faced a deteriorating economy and major societal problems" but "what would be his plan for dealing with them?"

- These products portrayed a Soviet leadership caught in a descending spiral: declining productivity was depressing the economy, which aggravated the cynicism and alienation of the populace; this in turn further reduced productivity.
 - CIA concluded that this "vicious circle" was potentially more significant for the 1980s than "anything the regime has had to cope with in the past three decades," and that the leadership and elites were fully aware they confronted major problems.
 - The analyses repeated the judgment that the Brezhnev regime and the Andropov/Chernyenko successions were likely to rely on the traditional Soviet instruments for controlling unrest and imposing "discipline" but that such approaches would not hold for the longer term in the face of a Soviet populace that was becoming less pliable and more demanding.
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Enter Gorbachev

When Gorbachev assumed the Party leadership, the analytic questions targeted by the CIA were not **whether** Gorbachev faced a deteriorating economy and major societal problems. They were: what would be his plan for dealing with them? What would be the repercussions on political stability in the USSR? What would be the implications for US security interests?

CIA products and a National Intelligence Estimate produced within a few months of Gorbachev's accession, (Appendix A, references 14-16) described the enormous tasks he faced but concluded (in CIA's case) that he was indeed a new kind of leader with an agenda to confront the maladies in the Soviet economy and society. These early assessments, however, also presented CIA's judgment that if Gorbachev's vision really went no further than trying to "fix" the existing system, his prospects of achieving his aims were low. (This judgment was also presented to the JEC at the end of Gorbachev's first year in office. See Appendix A, reference 20.)

Within the first year of Gorbachev's tenure, CIA's Office of Soviet Analysis (SOVA) also raised the prospect that his agenda could have major implications for defense outlays (Appendix A, references 17 and 18). It judged that, for a while, he could postpone confronting this issue, given the military-industrial infrastructure already in place. SOVA believed, however, that if he was serious in his objectives, he would ultimately have to deal with the defense burden. On the basis of this analysis, the office attempted to record a dissent from a 1986 NIE's projections of Soviet strategic force deployments over the coming decade (Appendix A, reference 19) on the grounds that the level of expenditure needed to acquire those forces was directly contradictory to Gorbachev's economic revitalization goals.

At the end of Gorbachev's first year, CIA disseminated a lengthy analysis (Appendix A, reference 21) that previewed the dynamic that would ultimately shape his tenure. It provided an in-depth look at the sources of the endemic societal problems he was confronting and highlighted his principal dilemma—that the very steps needed to deal with these problems would threaten the preservation of the *nomenklatura's* power and thus put at risk his ability to maintain the political strength he needed to bring about change.

CIA analyses during the period 1987-88 (Appendix A, references 22-27) described the increasingly evident flaws in Gorbachev's approach to restructuring the existing system. These papers pointed to the evidence that his half measures at reform were generating political resistance among the bureaucracy while failing to produce the economic results necessary to sustain popular support for his revitalization program. They also described the intensifying nationality fissures and the coalescing of threatened establishment factions into an opposing political force.

These same products included SOVA analysts' views that, to contain pressures for defense outlays that would be counter-productive to his economic objectives, Gorbachev would seek arms control agreements and other measures to ratchet down the East-West confrontation. In June 1988, SOVA also disseminated a study (Appendix A, reference 28) concluding that Gorbachev was finally going to confront the military burden issue and that there was a good chance of a significant unilateral cut in Soviet defense spending.

By this time, CIA analysts had concluded that Gorbachev himself recognized the failure of his flawed approach and saw the need for and was prepared to undertake more radical approaches. The CIA's expectations of a "watershed" were described in a paper disseminated in June 1988 (Appendix A, reference 29). The timing it postulated for Gorbachev's action was a bit premature, but he did make his move a few months later, at the end of September, when he sought to circumscribe the power of the party and bureaucracy. The CIA forecast this event shortly before it happened (Appendix A, reference 30).

In a CIA assessment in the fall of 1989, the prospect that Gorbachev would be able to control the events he had turned loose were described as "doubtful at best."

e Showdown

CIA's assessment of the magnitude of this watershed event-which it described as "Gorbachev's September Housecleaning"-was disseminated in December 1988 (Appendix A, reference 31). This paper included the judgment that while Gorbachev seemed to have consolidated substantial power to carry out his agenda, he had at the same time intensified opposition in the party elite. He also had put himself in the position where failure to deliver relatively quickly on his promises could produce a major backlash among the populace.

CIA products in the spring of 1989 (Appendix A, references 32-33) described the still dismal state of the Soviet economy and also the rising instability in the USSR resulting from the developments of the preceding few years:

- The economy yet again was described as having faltered badly since the mid-1970s and resembling that of a developing country, despite the USSR's status as a military superpower.
- The political situation in the Soviet Union was described as "less stable than at any time since Stalin's great purges in the 1930's," and glasnost was depicted as having opened the doors to nationalist movements that "if unchecked, could threaten to tear the system apart."

In the fall of 1989, a CIA assessment (Appendix A, reference 34) concluded that, regardless of whether Gorbachev remained in power, the forces unleashed by the combination of consumer dissatisfaction and his relaxation of political constraints on public dissent would virtually guarantee a period of "endemic popular unrest" in the USSR "for the foreseeable future." This assessment referred to the uncertainty that would accompany what promised to be "some of the most turbulent years in [Soviet] history." The prospect that Gorbachev would be able to control the events he had turned loose were described as "doubtful at best."

In the following year and a half, the Soviet-dictated alliance in Eastern Europe collapsed, and Germany was reunified. Within the USSR the pressures for autonomy from the republics became more open and more intense.

In April 1991, the CIA disseminated a memo entitled "The Soviet Cauldron" (Appendix A, reference 35). This memo-already highlighted in the Harvard case study and the article by Berkowitz and Richelson-argued that there was a high probability of a major political crisis, one form of which could be a coup attempt. Another CIA paper in May (Appendix A, reference 36) said that within the coming year "a major shift of power to the republics will have occurred unless it has been blocked by a traditionalist coup." Three months later, as Gorbachev was preparing to meet with union representatives to sign the All Union Treaty that would have given greater authority to the republics, the coup was attempted.

It is difficult to comprehend how anyone who has reviewed this material-about one-third of which was never classified-could assert that the CIA "continued to endorse the myth" of a Soviet Union that was a "mighty industrial power capable of ever higher levels of economic development," or that the CIA was oblivious to the destabilization and crisis that ultimately resulted in the breakup of the Soviet Union.

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Failure To Predict What Did Not Happen

The record of CIA analytical products illustrates one of the points made in the report of the HPSCI Review Committee—that some of the criticisms levied at CIA stem from public misconceptions and from critics' distortions of what, in fact, happened. The CIA did not, for example, describe a sudden economic "collapse" that was roughly synonymous or coincident with a breakup of the Soviet Union itself. Those who believe that is what happened will disagree with CIA's analysis, but they also should be required to show the case for their "collapse" interpretation.

The CIA did not forecast the breakup, either in timing or form, with the same sense of inevitability that is touted in many of the retrospectives critical of CIA's assessments. The Agency did predict that the failing economy and stultifying societal conditions it had described in so many of its studies would ultimately provoke some kind of political confrontation within the USSR. The timing of this confrontation, however, depended on the emergence of a leadership to initiate it, and its form depended on the specific actions of that leadership.

After that leadership finally appeared in the form of Gorbachev, the consequences of its actions—well intentioned but flawed—were dependent on diverse political variables and decisions that could be and were **postulated** but could not be **predicted** even by the principal actors themselves. Many of the critical events were precipitated and shaped by decisions made by Gorbachev that even he—at the time he assumed power—could not have predicted that he would make. When, for example, did he decide to undertake his September 1988 "housecleaning," and what would have been the outcome had he not done it?

It was by no means inevitable that the new leadership would appear when it did or follow the particular course that it did. It was not inevitable that Chernyenko would die when he did. And if he had not, how much longer would the Soviet Union have muddled along?

It was not inevitable that Gorbachev would succeed Chernyenko. Indeed, the effort among Soviet political *apparachiki* to head off his apparent succession was of sufficient prominence that US Embassy reporting shortly before the death of Chernyenko speculated that Moscow Party boss Grishin had become the leading contender. This same view was carried back from Moscow by a prominent US academic who had been there just before Chernyenko's death. Had Grishin succeeded Gorbachev, would the Soviet Union have broken up in 1991?

The timing and outcome of the coup attempt clearly were not susceptible to econometric forecasts of inevitable outcomes as seems to be implied in some of the criticism. Would the outcome have been the same if the Russian elections—made possible by Gorbachev's political actions—had not put Boris Yel'tsin in the position to take the stand that he did? Were the actions of the military—of Pavel Grachev—inevitable?

The economic and societal conditions made it inevitable that something would happen. That was clearly reported by the CIA. What actually did happen depended on people and decisions that were not inevitable. The CIA's record in tracking this process and describing longer term implications is available for review.

"The economic and societal conditions made it inevitable that something would happen. That was clearly reported by CIA. What actually did happen depended on people and decisions that were not inevitable."

The Tyrannical Numbers

To the extent that the disparaging public comments make reference to actual CIA products, they focus almost entirely on numbers-GNP figures and some unclassified statistics disseminated by the CIA over the years. The HPSCI report, in presenting its findings relating to those areas of CIA's work that merited criticism, opined that if the CIA had refrained from comparative assessments-showing Soviet-US GNP ratios in a regate and per capita figures or Soviet GNP rankings with other countries-its reports "might very well have not generated the current controversy." **10** There is some validity to this judgment, although just how much less criticism there would have been is an open question.

This monograph is not intended to take on the methodological arguments over what was the correct quantitative measurement of Soviet GNP. Such an undertaking is well beyond the expertise of this author, and a review of the vast amount of literature that has been devoted to the subject raises a question of whether it is resolvable. A major effort in this area is the study by Abraham Becker of RAND Corporation published in late 1994 **11**. Regardless of whether a reader agrees with Becker's specific conclusions, the presentation encompasses a wide range of diverse viewpoints and is accompanied by an extensive index of pertinent work for those who would seek to delve deeper into the subject. A comprehensive treatment of the issue was recently published by Gertrude Schroeder. **12**

The purpose of this monograph is to argue that judgments on CIA's performance on the Soviet Union should be based on a straightforward comparison of the record and the events. If the CIA is to be judged as having failed, it should be because the picture painted in the CIA products was/is incorrect. It is useful, however, to put the GNP arguments in the context of the substantive intelligence questions at issue regarding the Soviet Union.

One of CIA's more vociferous critics, Anders Aslund, referring to the fact that CIA estimated the USSR's average annual GNP growth during the 1980-85 time frame to be nearly 2 percent, said that, "If the CIA assessments had been reasonably accurate the Soviet economy would be a maturing industrialized economy ... there would be little need for economic reform; Gorbachev's urgency would be incomprehensible; and most internal criticism in the USSR would be unfounded." **13**

The Soviet economy portrayed in the CIA products described above, however, hardly qualifies as a "maturing industrialized economy." On the contrary, those products-over many years-consistently described the Soviet economy as, for example, "primitive, grossly unbalanced, and in massive disequilibrium" with a consumer economy that is "fourth class when compared to Western economies," (1981-Appendix A, reference 8) and as resembling "a developing economy" (1989-Appendix A, reference 32):

- The CIA did, in fact, lay out a strong case on the "need for economic reform" in the USSR and described at length the basis for "internal criticism" of the Soviet economy that led to Gorbachev's efforts.
- CIA's analytic products show how frequently the Agency said that eventually the declining economy and multifying societal conditions would lead to the turmoil in leadership politics that Gorbachev provoked.

The differences on this issue "do not appear to be over whether the Soviet economy was in a dismal state, but over which quantitative GNP calculation was an accurate depiction of the situation on the ground."

Thus, the differences between CIA and Aslund do not appear to be over whether the Soviet economy was in a dismal state, but over what quantitative GNP calculation was an accurate depiction of the situation on the ground.

Much of the criticism of CIA's performance on the Soviet economy falls into this pattern. It entails a substantial amount of intuition. For example, Herbert Meyer, a former economic editor of *Fortune* whom DCI William Casey brought to the Agency in the early 1980's as a special assistant, is quoted as saying:

Everything I had been able to learn about the Soviet economy, including visiting the place, told me it couldn't be growing at the rate the CIA said it was... It simply couldn't be true. I know what an economy looks like when it's growing three percent a year, and that isn't what it looks like [Author's note: Actually, CIA calculated the average for the early 1980s at slightly less than 2 percent per year.]... You cannot have food shortages growing worse, production shortages growing worse, bottlenecks-all those things we knew were going on-and still have an economy growing at the rate the agency said it was-which the U.S. was barely doing at that point... It couldn't be true. **14**

Why did the CIA report East German GDP as greater than West German GDP in the World Factbook 1987?

One of the most frequently cited examples of grossly flawed analysis by CIA concerns an erroneous entry in The World Factbook 1987 that stated that in 1986 West German GDP per capita was \$100 lower than that of East Germany. This is cited by critics as demonstrating the extent to which CIA overestimated the strength of the Communist economies and failed to see the deterioration that led to the collapse of the Communist regimes.

While the process that led to this is deserving of criticism and has since been corrected, the published figures were not a reflection of CIA's analytical judgment of the relative performance and strength of the West German and East German economies. The discrepancy occurred as a consequence of separate analytic divisions using different methodologies to convert GDP into a dollar figure for inclusion in its World Factbook.

- The East German analyst, working with an outside contractor hired to devise ways of compensating for the inaccuracies of East German data, used "purchasing power parity ratios" (PPPRs) based on UN data to estimate GDP in dollars.
- The West German analyst applied the dollar-deutsche mark market exchange rate from 1985 to convert the 1986 West German GDP figure (used also by the OECD) into dollars.
- The problem from using two different conversion rates was compounded by the fact that in 1985 the dollar was booming compared to the deutsche mark. Thus, using the market exchange rate between the currencies resulted in a significant underestimation of the West German GDP.

The isolated nature of the error is demonstrated by the fact that, in that same year, the Handbook of Economic Statistics published by the Directorate of Intelligence used a common methodology for converting GDP into dollars, reported 1986 West German per capita GDP as being 32 percent greater than the East German figure:

- While claims have been made that the gap was even wider, such arguments are completely different from allegations that the Agency was blind to the enormous gap between the economic performance of the two Germans.
- Moreover, arguments that an even greater gap should have been reported in the Handbook often are based on confusing GDP per capita with per capita income. GDP calculations include the production of unsold goods and spending on defense and other government projects and services that may not directly benefit households. Government spending, wasteful construction projects, and unsold inventories were especially high in Communist countries.

As in the case of Aslund's comments, the disagreement was not over all the dismal things "we knew were going on," the divergence was over whether "those things" were possible in an economy that was growing at an average of nearly 2 percent a year. The CIA argued that this was possible because

GNP merely measured gross output without regard to use, quality, or contribution to welfare; it included, for example, the military production and raw quantities of wasteful output. (US calculations of its own GNP as an indication of the public welfare recently have come in for similar criticism.) Others, such as Meyer, found the numbers “counterintuitive”—inconsistent with what they saw—and looked for lower numbers they believed were more compatible with the dismal conditions that everyone agreed existed.

Given the nature of the analytic problem posed by the Soviet system, the analysts preparing the numbers anticipated that some of their numbers would be open to question. CIA participants in this analytic effort would welcome an objective public debate on the numbers issue. This would provide a forum in which CIA’s numbers and those offered by others could be subjected to a common examination of sourcing and methodology. Such examinations would also illuminate the fact that GNP calculations include production of unsold goods as well as spending on defense and other government projects that may not directly benefit households. These conditions were particularly manifest in the wasteful construction projects and unsold inventories of Communist countries.

An objective examination would also provide an opportunity to confront the “counter-intuitiveness” argument with certain realities such as: (a) the population of the Soviet Union exceeded the combined populations of West Germany and Japan by an amount greater than the combined populations of France, the Netherlands, and Belgium; (b) the Soviet GNP included production for what was probably the world’s largest military establishment; (c) material extraction in the Soviet Union was the highest of any single nation; and (d) the principal problem with the Soviet economy was not its size but its distortions—not simply how large the GNP was but its composition and how it was distributed.

“The HPSCI report concluded that the CIA practice of expressing its estimate of the Soviet-US GNP ratio... opened the door wide for misinterpretation, if not misrepresentation.”

The presentational flaws identified by the HPSCI group may well be more weighty than the methodological shortcomings in the CIA estimates, a conclusion also implicit in the Schroeder and Becker studies:

- The HPSCI report concluded that the CIA practice of expressing its estimate of the Soviet-US GNP ratio as a single-valued geometric average of separate ruble and dollar estimates opened the door wide for misinterpretation, if not misrepresentation. This clearly occurred over the years, although both ruble and dollar comparisons were shown in CIA’s major GNP comparison papers and in CIA’s annual statistical handbook.
- More significantly, the Agency almost certainly failed to account fully for the differences in the quality of US and Soviet goods in its comparisons. How much this failure biased the results remains to be established.
- CIA analysts correctly point out that their presentations noted the potential distortions in their calculations, but these “caveats” all too often were lost on many readers. For example, CIA measures of growth (GNP in constant rubles) at best were an approximation of changes in the USSR’s production potential, not gains in welfare.

In the best of circumstances, numbers lend themselves to what have become known as “sound bites” (one could make a parallel case for “sight bites”). They are easily taken out of context, misunderstood, or deliberately misrepresented. The more technical and complicated the derivation of the number, the more this is so, because much of the audience does not understand the intricacies included in its computation. The misperceptions arising from CIA’s GNP work make a prima facie case that we did not always meet the required presentational rigor.

The problems that can be mitigated by more careful presentation are illustrated in the CIA document listed as reference 32, *The Soviet Economy in a Global Perspective* (March 1989). That document states that, at one time, the Soviet economy reached nearly 60 percent of the US GNP. The 60 percent illustrates one of the criticisms specifically cited in the HPSCI review—presenting a single-figure geometric mean of the ruble and dollar comparisons at a time when the spread between the ruble and dollar calculations was more than 25 percentage points.

Even so, the 60 percent appears in a lengthy paper devoted to describing the disastrous state of the Soviet economy, depicting it as more like a less developed economy than anything in the West and concluding that this dismal performance posed major political problems for the Soviet leadership. The Key Judgments of this paper are presented in their entirety in the appendix. The paper itself has been declassified and is thus available for further examination. Readers can judge for themselves the validity of criticisms that cite this “60 percent” figure as a basis for charging CIA blindness to the state of the Soviet economy, while ignoring the rest of the paper. The “selectivity” argument cuts both ways.

A question that must be asked, however, is how would the message in that CIA paper have differed if the number had been presented as “about 50 percent” or “two-fifths”? Or better yet, what would the public perception have been if the paper had given both the ruble and dollar calculations while stating that the actual ratio was somewhere between them? Would this have had an impact on the judgments the paper offered on the state of the economy over the preceding decade and on the resulting political instability in the USSR? On the implications of that political instability for the longer term prospects of the regime? On the implications for US security concerns? Would such differences in the calculation of the dollar value of Soviet GNP—**as opposed to rates of growth of ruble GNP**—have shaped the judgments in the long list of CIA products cited above?

“What the enormous gap between CIA’s analytic record and the perception of that record demonstrates ... is that the channel of communication between CIA and the policy community has, at best, been poor”

Some Lessons

These are some of the questions that must be asked to learn lessons for the future. A resource commitment needs to be commensurate with the value added. And in these cases, the value added must be measured in terms of the contribution made to policy formulation and execution—not against a concept of precision that becomes an end in itself. Such painful questions should not be probed to assess guilt or virtue in the past but to make better use of our analytic tools and resources in the future. The ultimate “tyranny of numbers” is when arguments over them obscure the issues that the numbers are supposed to clarify.

Perhaps the most difficult and disturbing question to come from a review of the record has been posed by some who have for the first time fully reviewed the record—how could the world at large, including so many former policy officials, have developed such a distorted perception of what the CIA said? This might be understandable if it were attributable to a few individuals who—justified or not—may have had a grudge against the CIA, but the near universality of the perception and its articulation by former policy officials who should have had access to the products cited above is most disturbing.

What the enormous gap between CIA’s analytic record and the perception of that record demonstrates—at least in the view of this author—is that the channel of communication between CIA and the policy community has, at best, been poor, and for good portions of the time it has been nonfunctional. Of all the issues that have to be addressed in considering the future of intelligence, this may well be the toughest and most relevant.

Appendix A - Excerpts From Cited References

The Failing System

References 1 through 4 cover the annual Joint Economic Committee (JEC) appearances by DCI Admiral Stansfield Turner:

Reference 1-23 June 1977: JEC testimony, Stansfield Turner: **15**

We think the Soviet Union is entering into a period of reduced growth potential... . The basic problem is [that] the formula for maintaining their level of growth over the past 25 years, which has been to increase the inputs of labor and capital to make up for the inefficiency in the way they utilize them, does not appear to us to have long term prospects. They are not going to be able to continue this during the next ten years or so. (p. 2)

Reference 2-26 June 1978: JEC testimony, Stansfield Turner: **16**

You can see from this chart the sharp downturn in growth [of heavy industry] in the Soviet Union in the 1976-77 period. Shortfalls in key industrial commodities, especially steel,...construction materials,...and machinery have been a major factor in this slowdown... . Shortages in steel production have impacted on the machine building industry... which accounts for about one-third of industrial output in the Soviet Union Moreover, the Soviet record in bringing new industrial capacity on stream during the last two years has been dismal. (p. 2)

We think it likely that the Soviets will muddle through, at least to the early 1980s. (p. 38)

Reference 3-26 June 1979: JEC testimony, Stansfield Turner: **17**

Our analysis of Soviet economic developments (since last year) has reinforced our conclusion that we see every reason to believe that a continued decline in the rate of growth of the Soviet Union is inevitable through most of the 1980s. (p. 2) The low growth rates we envision for the mid-1980s could squeeze their resources to the point where something has to give.

Reducing growth in consumption would not be popular, and would have a negative impact on worker moral and productivity when a boost in those is needed... .

Reducing defense spending, of course, in a period of very probable leadership change could be equally difficult since those vying for power will be reluctant to take actions which might alienate the military... .

There is no way the Soviets can do more to help Eastern Europe without hurting their own economy. To do less for Eastern Europe, however, might well endanger political stability in those countries. (p. 11-12)

At the recent July session of the Supreme Soviet, Premier Kosygin announced that the Council of Ministers has formed a high level commission to `solve current questions of economic growth.' This action appears to be another indicator of the government's concern over increasingly serious economic problems. (p. 160-161)

Reference 4-25 September 1980: JEC testimony, Stansfield Turner: **18**

Our testimony on the Soviet Union has charted an economy losing its momentum while military programs continue to be pursued with vigor and determination... . I would like to review...why the economic outlook is so bleak. But I will mainly discuss why... the combination of slowing economic growth and rising military outlays pose such difficult choices for the Soviet leadership over the next several years."(p. 105); "the rate of economic growth has declined steadily since the 1960s,...the outlook is for a continued decline in the rest of the 1980s" (p. 106); "the Soviets lag far behind the Western countries and Japan [and] the differences have increased considerably since the 1960s. The Politburo's short run response is likely to stress discipline and measures to restrain consumer demand." (p. 116) "But we do not think any of the economic reforms adopted thus far will have an appreciable effect on economic performance. A decisive shift in economic policy cannot be expected until a new Soviet leadership arrives on the scene. Even a succession leadership would be likely to `muddle down' for a time rather than confront head on the problems raised by slowing economic growth... .We do not think muddling down is tenable in the long run, however... .the economic picture might look so dismal by the mid-1980s that the leadership might coalesce behind a more liberal set of policies. These policies could include major shifts in resource allocation, structural reforms, or both. (p. 117)

Each of these four hearings included CIA statements that the problems had indeed registered on the Soviet leadership. See reference 1, p. 54-55; reference 2, p. 38; reference 3, p. 19-20; reference 4, pp. 116-117.

References 5 and 6, disseminated in unclassified form during the Turner tenure, are CIA economic assessments showing a bleak outlook for the 1980s and the potential impact on defense.

Reference 5-July 1977: *Soviet Economic Problems and Prospects:* **19**

... it will not be easy to find solutions that will do more than alleviate the component problems. Powerful remedies are either not readily available or not politically feasible... .**The slowdown in economic growth could trigger intense debate in Moscow over the future levels and pattern of military expenditures .** (Emphasis added.) ...These serious problems ahead seem most likely to prompt Soviet leaders to consider policies rejected in the past as too contentious or lacking in urgency... . Soviet responses to these problems could be further complicated by the fact that leadership changes will almost certainly take place during the coming period. Even a confident new leadership would have difficulties in coming to grips with the problems ahead. (pp. ii-v)

Reference 6-June 1980: *The Soviet Economy in 1978-79 and Prospects for 1980: 20*

The Soviet economy slowed to a crawl in 1978-79...The severity and the wide-ranging nature of the slowdown, however, reflect more fundamental problems. After 25 years of sustained high rates of growth-fueled by ever larger amounts of capital and labor-the Soviet economy has entered a period of increasing strain... overall resource productivity (output per unit of combined inputs of labor, capital and land) is declining and prospects for a turnaround are bleak. How to raise productivity is now the key question facing Soviet leaders as they enter the 1980s. (p. iii)

Reference 7, also disseminated during the Turner tenure, pointed to the growing malaise among the populace resulting from the system's failure to deliver on its promises and the potential for political repercussions over the longer term:

Reference 7- August 1979: *Consumer Frustrations and the Soviet Regime: 21*

Soviet consumer discontent is growing and will cause the regime of the 1980's serious economic and political problems...national minorities, particularly in the Western borderlands, tend to see their economic woes caused by Russian exploitation. On several occasions in recent years, economic and national grievances have combined to produce large-scale demonstrations in the Baltic Republics and in the Ukraine. The approach of 'hard times' will aggravate ethnic conflict... (p. iii)

After years of neglecting consumer welfare, the Soviet leaders have shown growing concern in recent years, especially since the harvest failure of 1975... .It is unlikely that the current aged and conservative leadership, on the eve of a succession, will initiate any fundamental reordering of priorities to benefit the consumer, or any major reform of the economic system to raise productivity... . Politically, the short run consequences of continuing present policies will probably not pose a genuine threat to the stability of the state. (p. v)

In the longer run...consumer dissatisfaction could have severe political consequences. The Soviet leaders can ill afford to ignore the material demands of their increasingly acquisitive society. If, as projected, economic growth declines to the point where the regime is unable to improve or even maintain the current standard of living by the mid-1980s, the incidence of active unrest will certainly grow, forcing the leadership to consider a reordering of its priorities. (p. vi)

In the early 1980s, CIA disseminated a number of assessments of the combined effect of the failing economy and social stresses in the USSR and the implications for Soviet politics and defense spending toward the end of the decade:

Reference 8-August 1981: *Consumption in the USSR: An International Comparison*, JEC Submission, Schroeder and Edwards, 22 submitted to the JEC by the CIA's Office of Economic Research, contains a particularly bleak assessment of the larger implication of the Soviet failure:

The Soviet pattern in many respects conforms to that in less developed countries, and remarkable little progress toward a more modern pattern has been made in recent decades. In this and other respects, the USSR is indeed the world's most 'underdeveloped developed country'In the USSR, long-continued investment priorities favoring heavy industry and defense, coupled with a rigid and cumbersome system of economic organization, have combined to produce a consumer sector that not only lags behind both the West and Eastern Europe, but also is in many respects primitive, grossly unbalanced and in massive disequilibrium. These negative aspects cannot be captured in quantitative comparisons, which as a consequence overstate the level of well being in the Soviet Union relative to other countries... . progress in raising living standards is likely to slow to a crawl and the consumer sector will remain fourth-class when compared with Western economies. (p. vi-viii)

Reference 9-October 1981: JEC testimonies of Harry Rowen and Douglas Diamond: 23

Two months after the paper in reference 8 was submitted to the JEC, the new Chairman of the National Intelligence Council, Harry Rowen, appeared before the Committee, testifying that, "*The overall state of the [Soviet] economy can be summarized very briefly. It is an economy in a great deal of difficulty. It is turning very sour indeed.*" (p. 202)... . "*there is a very serious problem that the Soviet leadership faces*" (p. 203). And in response to a question from Senator William Proxmire, an officer from CIA's Office of Economic Research (Douglas Diamond) commented that:

Some observers argue that this declining growth in productivity is a key indicator of the deep-seated cynicism on the part of a society ...that no longer believes the good life is coming...(p. 278)

We believe there is a feeling, widespread in Soviet society, covering all social groups, that lack of progress in the standard of living in real terms has affected them. This is a broad phenomenon. They feel the standard of living is leveling off, and their chances of having, for example, car ownership or an individual apartment with relevant accouterments, is nil, as opposed to 15 or 20 years ago, when their expectations were very high that they and their children would have, by this time or in the 1980s, much more than in the 1960s or 1970s. (p. 279)

References 10, 11, and 12 address the major **societal** problems that continued to worsen in the 1980s and describe the extent to which these are now becoming a potentially major factor in future political development in the USSR.

Reference 10-December 1982: *Soviet Society in the 1980s: Problems and Prospects: 24*

... Soviet officials recognize that the Soviet Union now faces a wide array of social, economic and political ills, including general social malaise, ethnic tensions, consumer frustrations, and political dissent. Precisely how these internal problems will ultimately challenge and affect the regime, however, is open to debate and considerable uncertainty. Some observers believe the regime will have little trouble coping... .Others believe that economic mismanagement will aggravate internal problems and ultimately erode the regime's credibility, increasing the long-term prospects for fundamental change.

... popular discontent over a perceived decline in the quality of life represents, in our judgment, the most serious and immediate challenge for the Politburo Popular dissatisfaction and dynamism seem to be growing. This popular mood has a negative impact on economic productivity and could gradually undermine the regime's credibility.

Ethnic discontent-rooted in cultural, demographic, and economic problems as well as political suppression-remains primarily a latent but potentially serious vulnerability.

The range of political, religious, and cultural discontent that is expressed in the Soviet dissident movement does not, at present, seriously challenge the regime's control, but the regime deals with it as though it does The movement, however, is not likely to die and in the long run could grow if it can capitalize on increasing discontent, cynicism, and alienation among the populace.

The sharp downturn in economic growth since the mid-1970's is the underlying problem that ties all these issues together and makes them potentially more troublesome for the regime.

The pervasive police powers at the Politburo's disposal, when coupled with the Soviet populace's traditional passivity toward deprivation and respect for authority, should provide the regime with the necessary strength to contain and suppress open dissent. (Key Judgments, pp iii-iv)

No solution it is likely to attempt, however, offers any certain cure for its growth problem and the malaise related to it. This situation will likely require the leadership to fall back even more on traditional orthodox methods to control dissent and suppress challenges to its authority. (p. v)

From a perspective of the Soviet leadership, economic difficulties impact on the entire range of social problems it must manage. Unless it can find a successful economic strategy, there is every likelihood that growth will stagnate, consumer frustrations will grow, ethnic tensions will intensify, and discontent become more threatening. (p. 34)

Reference 11-December 1982: *Soviet Elite Concerns About Popular Discontent and Official Corruption: 25*

Brezhnev's death comes at a time of heightened concern among Soviet elites about public morale and official abuse of power. The dominant attitude appears to be one of pessimism about the popular mood and apprehension about the implications of corruption for the future of the Soviet system. (Key Judgments) ... Soviet elites have become more concerned about the potential consequences of popular discontent and official abuse of power than they have been for the past quarter of a century...Soviet elites are aware that, in recent years, conditions giving rise to popular discontent have worsened, while the regime's resources for maintaining social stability and motivating the work force have diminished. Officials are probably most concerned about the adverse effect of popular dissatisfaction on labor productivity. But they are also worried about the possibility of social disturbances serious enough to produce challenges to political control. (p. 1)

Soviet elite concerns about popular morale may be tempered by cognizance that the regime possesses still powerful instruments of repression ... (p. 7)

Nonetheless, since the mid-1970s, the mood of Soviet society seems to have shifted. Although habits of submission to authority remain stronger in the Soviet Union than among most peoples of Eastern Europe, the Soviet population has apparently become more demanding, more skeptical, and less pliable ... There is apprehension among elites that corruption is sapping the party's moral authority and its ability to provide effective leadership. These trends in elite attitudes may have major implications in the post-Brezhnev period. (p. 8)

Reference 12-April 1983: *Dimensions of Civil Unrest in the Soviet Union: 26*

Civil unrest in the Soviet Union takes many forms. Since 1970, intelligence sources report over 280 cases of industrial strikes and work stoppages, public demonstrations, and occasional violence, including sabotage, rioting, and even political assassination attempts ... The scope and character of popular grievances that are suggested in recent civil unrest probably present a greater long-range challenge to the regime than the narrower intellectual dissident movement ... For the Soviets, this may be a vicious circle of greater potential domestic significance for the 1980s than the regime has had to cope with anytime in the past three decades. (Key Judgments pp. v-vi)

Reference 13-13 June 1983: The dismal economic inheritance of the 1980s was described in a CIA paper entitled *The Slowdown in Soviet Industry, 1976 -82: 27*

Industrial growth, which had been decelerating since WW-II, slowed unusually sharply during 1976-1982 ... Even more dramatic was the slump in productivity ... Prospects for turning the situation around in the rest of the 1980s are not good ... The surprising and dramatic turndown ... was precipitated by a ... decision ... to try a new strategy for economic growth. Output gains were to depend mainly on improved efficiency ... in the past, most of the growth in output had been achieved simply by massive increases in new plant and equipment and mobilizing more workers. (Key Judgments p. iii)

Most of the unfavorable developments that converged to slow industrial growth and productivity during 1976-82 will continue to do so for the rest of the 1980s, and may intensify ... Major systemic reforms, which might provide a solution in the long run, are not on the leadership's agenda as yet. Even if launched, they would be unlikely to boost industrial growth and productivity for many years ... By CIA measures industrial growth has failed to meet planned targets every year since 1973-and by growing margins. (Key Judgments p. vi)

The adverse features that caused factor productivity to slump badly in 1976-82 are deeply imbedded and are likely to continue. (p. 30)

The slow pace of industrial growth that we project for the 1980s (about 2 percent per year) will seriously limit growth in other sectors and in the economy as a whole, since industry accounts for nearly half of Soviet GNP ... It will limit the USSR's ability to boost living standards substantially and to accelerate military production ... the present Soviet leadership [Andropov, soon to be followed by Chernyenko] ... will most likely try to adjust to slower economic growth and will return to traditional methods ... this means tinkering with planning, organization, and incentives ... `muddling through' (p. 31)

Enter Gorbachev

Two products disseminated within the first several months of Gorbachev's tenure identified him as a force for change, but also outlined the enormous hurdles he faced:

Reference 14-August 1985: *Gorbachev's Approach to Societal Malaise: A Managed Revitalization: 28*

Gorbachev's attempt to bolster popular support for the regime carries political risk. His direct appeal to the public could generate concern within key

bureaucracies that they are being circumvented, and generate popular expectations that he may not be able to satisfy. A key issue in coming months will be the question of political will and political power- whether Gorbachev places enough priority on the alleviation of social problems to devote energy and resources in this area at the expense of other important projects, and whether he is able to marshal sufficient political support to do so. (p. iii)

... developments over the past decade have weakened several props [coercive instruments, social contract, historical patterns] and given rise to greater public discontent about internal conditionsSoviet society has become more demanding, less believing and less pliable, as manifested in a variety of related phenomena: low morale, increased materialism and withdrawal in private affairs such as black market activity beyond the regime purview, rising crime and alcohol abuse, youth involvement of various types of delinquency, increased pacifism, and attempts of minorities to emigrate.

.. A tone of urgency pervades [Gorbachev's] public discussion of key societal problems ... in his June speech ... he referred to the anxiety' of the Soviet people that the country'ssocial and economic development' be accelerated, stated that none of the problems we must solve today can be put off until tomorrow,' and insisted that there must be no delay, no waiting because there is no time left for warming up-it was exhausted by the past.' Gorbachev's remarks suggest that he is strongly committed to following through with a program of action. (p. 1)

Unlike Brezhnev, Gorbachev appears to view attempts to maintain the status quo as more destabilizing than attempts to change the situationThis approach is consistent with Gorbachev's insistence that problems be vetted and discussed somewhat more openlyGorbachev has warned that public confidence in the regime is eroded when serious problems are glossed over. (p. 2)

As he fleshes out his programs, Gorbachev will have to reckon not only with vested bureaucratic interests opposing change and competing for resources, but also with ingrained habits and attitudes in the society at large that will be difficult to alter ... In sum, Gorbachev has yet to reveal any integrated program for dealing with the web of interrelated societal problemsA key issue in coming months will be the question of political will and political power-whether Gorbachev places a high enough priority on the alleviation of social problems to devote energy and resources in this area, and whether he is able to marshal sufficient political support to do so. (p. 9)

Reference 15-September 1985: Gorbachev's Economic Agenda: Promises, Potentials, Pitfalls: 29

Since coming to power Michail Gorbachev has set in motion the most aggressive economic agenda since the Khrushchev era[but] All of Gorbachev's initiatives are aimed at raising productivity and efficiency throughout the economy by matching more and better equipment with a motivated work force and an enlightened management cadre. He has put his finger on the very tasks the economy has never done well and has become progressively less able to do as it has grown in size and complexity. Although economic performance has improved in recent years from the low levels of 1979-1982, Gorbachev still faces an economy that cannot simultaneously maintain growth in defense spending, satisfy demand for greater quantity and variety of consumer goods and services, invest amounts required for economic modernization and expansion, and continue to support client-state economies. (p. iii)

This paper described the failings of the system as:

A technologically antiquated industrial base and a burdensome defense sector that has systematically siphoned off high-quality resources needed for economic revitalization.

An energy sector beset by stagnation and decline in production of its major fuel-oil-and a 30-year pattern of energy use that inhibits the rapid transition from oil to other fuels.

A level of technology that generally lags that of the West...even in military applications.

An inefficient farm sector ...

A hidebound bureaucracy whose rigidities contribute to irrational investment decisions. (p. 2)

The critical fallacies in Gorbachev's initial aims-to fix the existing system rather than to undertake fundamental change-were described in the Key Judgments of this paper as follows:

Improving worker morale and management effectiveness [which] will require an effective incentive system and a greater availability of high-quality consumer goods at a time when the investment sector will be oriented toward producer goods and new defense programs will be coming on line.

The regime's plan to hold energy's share of investment constant comes at a time when demand for energy will grow and the cost of offsetting declining oil production will be rapidly rising. (p. iv)

The increased managerial independence necessary to spur effective technological development and utilization is inconsistent with a centrally planned pricing and allocation system, leading to the likelihood of management disillusionment and subsequent reversion to the very methods that have led to waste, fraud, and mismanagement for years. (p. v) ... continued reliance on marginal tinkering despite clear indications that the plan for economic revitalization is faltering would mean that Gorbachev, like Brezhnev before him, has succumbed to a politically expedient but economically ineffective approach. (p. vi)

Reference 16-November 1985: National Intelligence Estimate 11-18-85 entitled *Domestic Stress in the Soviet Union* **30** also made many of the points presented in the two CIA products above:

There is growing tension between popular aspirations and the system's ability to satisfy them; and also tensions between growth and modernization goals on the one hand, and centralized political control. We do not exclude the possibility that at some unforeseeable future time, such tensions could pose a serious threat to the stability of the regime. (p. 5 of Key Judgments)

The question of the **potential impact that Gorbachev's efforts to deal with his internal economic and societal problems might have on Soviet defense-** and thus on US defense budget planning-quickly became one of the most neuralgic of the issues surrounding assessments of the new leader. As noted

in the Harvard case study, the Directors of DIA and Air Force Intelligence dissented on CIA's judgment in the NIE of November 1985 that Gorbachev's efforts to deal with these internal problems were likely to effect his foreign and defense policies. As was also described in the Harvard case study, however, and as is indicated below, by the spring of 1986 there was no disagreement between CIA and DIA on "whether," only some differences on "how and how much."

Reference 17-19 March 1986: JEC testimony by Douglas MacEachin, the Director of CIA's Office of Soviet Analysis (D/SOVA) **31** was part of a joint CIA-DIA presentation at which the two agencies declared they had no significant differences:

Gorbachev's plan for refurbishing the economy's industrial base ... will certainly involve increased competition with the defense sector ... (p. 6)

"... the production capacity required to support the Soviet force modernization over the next 5 or 6 years is in place." (p. 7)

"... in the immediate future, whatever controversy exists between or within the civilian and military leadership over [Gorbachev's] modernization program does not appear sufficient to challenge him politically or derail his modernization program... .Political risks for him are likely to mount, however, when the Soviets begin tooling up for the next generation of military weapons. Unless his efforts to modernize industry pay off between now and then in greater numbers of more advanced high quality equipment and substantially increased productivity, the conflict between civilian and defense interests will become more severe. (p. 8)

Down the line he faces considerable risk in implementing his modernization program. (p. 9)

[He may be hoping for a boost in agriculture in the next few years, but] in the absence of such an upturn, however, the hopes for eliciting a great work effort will probably plummet as general disillusionment sets in, with the population seeing Gorbachev as no more effective than Brezhnev or Chernyenko ... Gorbachev might ... permit selective utilization of private sector activity, particularly consumer services. This would require a greater departure from economic orthodoxy than he has indicated so far he is willing to do ... Gorbachev's approach has reflected adherence to the Soviet model. He does not seem to want to change the model. He seems to think he can make it work better.

In sum, we continue to believe that major adjustments probably will have to be made in Soviet economic policies, if Gorbachev hopes to come close to his economic objectives. At this stage, it is too early to say just what moves, if any, he would make. The one thing that appears certain is that the new General Secretary remains committed to his industrial modernization program. (p. 10)

Reference 18-March 1986: *Gorbachev's Modernization Program: Implications for Defense* **32**, was a CIA paper disseminated at the end of Gorbachev's first year in office:

Gorbachev can coast a few years on the basis of the USSR's past investment in its military industrial complex... In the immediate future, any controversy that exists within the civilian and military leadership regarding the industrial modernization plan does not appear sufficient to challenge Gorbachev politically or to derail his plans... The political risks are likely to mount, however, as the demand for defense plant and production equipment rises in the late 1980s and early 1990s, when the Soviets will have to begin tooling up for the next generation of weapons. Unless Gorbachev's efforts to modernize the economy pay off in greater numbers of more advanced, high-quality equipment and in substantially increased productivity, the battle between civilian and defense interests will become more severe... the objectives of industrial modernization could increase pressures to postpone certain major defense initiatives—an option almost certain to be unpalatable to a significant portion of the military and political leadership. (pp. 9, 10)

Reference 19-22 April 1986: A memo from D/SOVA to the DDI. **33** In this memo, the CIA sought to record a dissent to the aggregate projections for new Soviet strategic weapon systems projected in an NIE about to be disseminated. The CIA argued as follows regarding the economic implications:

(1) Our analysis shows that the "low forces" projected in the NIE would require Soviet procurement spending on the strategic mission to increase...an average annual growth of 11 percent. To support the "high" forces projected in the estimate, procurement spending would have to increase at an average annual rate of 13 percent.

(2) Procurement spending growth at even the low rate has only occurred once before over such an extended period. During 1966-70, procurement spending on strategic forces increased at an average annual rate of 10 percent as the Soviets embarked on a rapid expansion of their intercontinental attack forces with the deployment of the 3rd generation ICBMs and the Yankee-class SSBNs. But that growth occurred from a much lower base and the Soviet economy then was in much better shape, with GNP increasing at an average annual rate of around 5 percent, more than twice the rate anticipated during the 1986-90 period.

(3) More important, such high growth in procurement for the strategic mission would—unless accompanied by significant cuts in conventional military forces—not only rule out any prospect of success of the industrial modernization program, but in fact would imply that Moscow has no intention of attempting to carry out this program which the new Soviet leadership has publicly made the centerpiece of its agenda. Major cuts in spending on conventional forces, moreover, would run directly counter to what appears to be the current trend in Soviet strategy and doctrine. (pp. 2-3)

The CIA dissent was not included in the NIE. Indeed, some in the intelligence and policy communities believed that Gorbachev's plan was not real, but rather a gambit to buy "breathing space." As indicated in the source materials below, CIA was coming to the conclusion that "breathing space" was not an achievable end, and that reaching Gorbachev's objectives would instead require the kind of systemic reforms that could change the threatening nature of the USSR.

Reference 20-April 1986: *The 27th CPSU Congress: Gorbachev's Unfinished Business* **34**, another of the CIA assessments at the end of Gorbachev's first year, dealt with his political progress:

Gorbachev's initial Party Congress effectively drew a curtain on the Brezhnev era ... but was not the decisive break some Soviets and Western experts had predicted... (p. iii) "For every issue moved forward, an equally important question was sidestepped ... Gorbachev's avoidance of potentially divisive issues at the Congress was politically prudent, but continued caution could slow the momentum he has built over the first year ... (p. v)

The 27th Party Congress strengthened Gorbachev's hand for pressing along the lines he had already laid out in his first year. The trend lines all point in the direction of Gorbachev's consolidation of power and the advance of his policy agenda ... [but] by failing to flesh out his calls for reform, to move boldly on sensitive issues like party privilege and tenure, or to attack the Brezhnev legacy directly, Gorbachev has left in doubt his ability to translate political success into more than a personal triumph. (p. 21)

Signs of tension within the Gorbachev camp over how hard or fast to press change could be of even greater long term significance and will be a key

Reference 21-April 1986: *Domestic Stresses in the USSR* **35**, while also disseminated at the end of Gorbachev's first year, was actually the compilation of an exhaustive research and analytic effort that had been under way before Gorbachev took office. It was extended to take into account the initial revelations of the new leader's agenda. It provides a critical and comprehensive assessment of the new leader's problems and prospects in confronting the societal problems that—at least as much as the economic failings—provided impetus to the calls for change from within the Soviet Union itself. The volume of the excerpted material below is offered both for its substantive content and as an illustration of the amount of information and significant judgments provided in that benchmark paper, which was the basis and backup for the NIE cited in reference 16.

The Key Judgments of the SOVA paper included the following:

As consumption growth tapered off in the 1970s and the population became less isolated from the outside world, popular discontent grew, especially among youth, religious believers, and national minorities. Leadership ineptitude and bureaucratic corruption exacerbated these problems and eroded the system's legitimacy in the public mind... These problems are not likely to produce a fundamental challenge to regime control during the remainder of the 1980s, ... [but] Domestic pressures ... will probably exert a more significant influence on regime policy than at any time since the period after Stalin's death... More recently, there has been increased recognition that at some point domestic problems could combine to produce political instability. (p. iii)

[Gorbachev] moved vigorously to address the societal and economic ailments confronting the regime... Likely steps, many of which are extensions of current initiatives ... if enacted and pursued as vigorously as those now under way—will increase turbulence within society and the elite. Within officialdom, powerful vested interests will attempt to slow the pace and limit the scope of change. (p. iv)

Soviet leaders will face continuing problems throughout the 1980's and beyond. Soviet societal problems result from fundamental contemporary conditions that the regime is unable or unwilling to alter. The growing sophistication of consumer demand is a natural consequence of the very process of economic modernization that the regime wants to further. The growing size of the critically thinking public is the result of expanded education, which is essential to the country's progress. The exposure of the population to external influences is partly due to technological advances beyond the regime's control. (p. v)

The following excerpts are mainly the topic sentences of the paragraphs from pages 71-72 of the paper's text, although in two instances the entire paragraph is quoted:

Soviet press articles have suggested that Gorbachev's economic reforms are meeting resistance from ideologues in the party and the government... .

Unfulfilled expectations will probably become a growing concern for Gorbachev... .

Opposition to Gorbachev within the leadership and the broader elite for now appears disorganized. But the success Gorbachev has achieved in expanding his power will not guarantee success for his policies. Should his program fail to spur economic growth or lead to significant popular protest, latent opposition within segments of the elite could coalesce, disagreements might surface among his own allies within the leadership, and Gorbachev might fall.

Overall, however, we believe Gorbachev's political position will remain strong and the USSR under his dynamic leadership is likely to see some improvement in system performance over the next few years... .

It seems unlikely, however, that Gorbachev will be able to introduce reforms significant enough to arrest long-range negative trends in Soviet society... .

Soviet internal problems are to a considerable degree endemic, given the basic structure of the system... .

Soviet societal problems are not merely vestiges of the past that have endured, but the results of contemporary conditions that the regime is unable or unwilling to alter. Some societal problems are consequences of Brezhnev policies that can be modified, but others are byproducts of policies that the regime is loath to abandon... .

Thus, although the regime will be able to contain societal tensions for the foreseeable future, long-range trends are producing a fundamental and growing disparity between popular aspirations and the regime's capacity to satisfy them. Over time, these trends may produce consequences that are incalculable at present. The evolution of the Soviet system and the society will continue to be shaped by conflicting forces that will make a balance between controls and dynamism hard to strike. Over a decade ago, the late dissident Andrey Amalrik summed up the essential dilemma: In order to remain in power, the regime must change and evolve, but in order to preserve itself, everything must remain unchanged.

As Gorbachev approached the end of his second year in office, the problems foreseen for him became increasingly evident, and this was reflected in increasingly critical and pessimistic CIA assessments.

Reference 22-February 1987: *Gorbachev's Domestic Challenge: The Looming Problems: 36*

Gorbachev's greatest challenge lies ahead. The cautious changes he has mentioned so far are, in our view, insufficient to achieve (his) goals. Over the next few years, he is likely to face tough choices between accepting results that fall well short of his goals—and a resultant erosion of his power—or pushing the Soviet leadership toward far more difficult—and politically controversial—policy measures. (p. iii)

To achieve his goals he will have to consider more politically risky and economically disruptive reforms Gorbachev already is facing strong opposition from those who see their jobs, status, and sinecures threatened by his efforts to turn the Soviet economy and society around. (p. iii)

To implement successfully even the changes he has announced so far, Gorbachev will have to transform a bureaucracy renowned for its ability to resist leadership direction into a more responsive and efficient instrument of change His unrelenting pressure to get his agenda implemented is already creating a large pool of disgruntled apparatchiki intent on blocking his program and he may well have to consider even more forceful measures. (p. iii-iv)

Unless there is a sharp upturn in economic performance—which we think is unlikely—or a major reduction in defense spending—which would be controversial—by the end of the decade demands for investment in the civilian sector will come increasingly into conflict with demands for more investment in the defense industries. The prospect for such a choice has already led Gorbachev to pursue a bold strategy for managing the relationship within the Soviet elite and could, in conjunction with economic considerations, eventually lead him to confront fundamental obstacles inhibiting economic progress. (p. iv)

... As these problems converge over the next five years we believe he will face an increasingly clear choice between settling for half measures that fall well short of his demands and perhaps his needs, or forcing the Politburo to make some difficult and divisive decisions. Failure to take on this challenge probably would not cost him his job but would open his administration to charges of Brezhnev-style embolism that he seems determined to prevent. The

leadership style Gorbachev has demonstrated so far—as well as his rhetoric—suggests he will turn to more radical policy alternatives rather than accept that fate. He will find some advisors eager to push for a broader neo-Stalinist path, as well as those arguing for a more radical policy on economic reform. We do not know what mix of these options he might choose or even how hard he will push. But the complexities of these issues and absence of easy alternatives guarantee that the struggle will be protracted and the outcome uncertain, both for him and the Soviet Union. (p. v)

Reference 23-19 March 1987: JEC testimony by Douglas MacEachin, D/SOVA: **37**

There had developed, it is now clear, even before Gorbachev assumed the position of General Secretary, a consensus among a sizable portion of the Soviet political elite that the need to revitalize their economy was reaching a critical stage ... The plan that was submitted under the Gorbachev leadership essentially did not change or envisage any change in the fundamentals of the Soviet system ... (p. 3)

We foresaw major problems for him. First, it was our view that the system that he thought he could exercise to this end would, in effect, stymie him, block him ... he still had not dealt with ... the incentives to overcome the cynicism of a population that believed it had seen this before and of a managerial system which had strong disincentives for creativity, enterprise, and initiative ... he had to contend with a large number of sinecures which had grown up over the last 18 years of the Brezhnev leadership ... (p. 3-4)

A second major area of problems we saw for him was that he was going to face competing demands for a limited pie of investment. (p. 4)

(Regarding defense) there will come a time in the next year or two, we think, when the question of cutting tools for the next generation of weapons systems will be a serious issue, and when the debates begin on the next Five Year Plan. It is clear that the military is going to have to be dealt with insofar as its share of investments is concerned. (p. 4)

And finally, the consumer is going to have to see some results ... if he is going to have the kind of positive incentives needed. (p. 4)

Gorbachev appears now to have recognized that he is, indeed, running into the kinds of systemic problems we anticipated ... facing resistance and blockage ... he has taken the first steps toward challenging some fundamental aspects of the system ... This has created a great deal of political tension in the Soviet Union. It is going to be a very tumultuous year ahead, politically, in the Soviet Union. (p. 5)

... if he makes the present system become more effective and is able to limit his changes to the system to the minimum necessary, we would be facing an opponent whose opposition to our security interests remain but who is more effective ... On the other hand, if there is, accompanying this program, changes in the basic social instruments in the Soviet Union, an opening up to a greater exchange of ideas, greater democratization, it certainly will not look like anything we could describe as liberal democracy in the West, but it could move the system. So in that regard, we can say that the glass could be half empty or half full depending on the extent to which he undertakes those kinds of changes. (p. 5)

Gorbachev's policies had opened up enough public debate to allow the smoldering nationalities issue to heat up significantly. This ultimately became a critical precipitating factor in the coup attempt that ignited the political breakup of the USSR. The CIA published several papers on the boiling nationalities problems, most of which have not yet been declassified. One available example is excerpted below.

Reference 24-June 1987: *The Kazakh Riots: Lessons for the Soviet Leadership:* **38**

The consequences of the riots that took place in the Soviet Kazakh Republic in December extend well beyond the borders of Central Asia. The widespread corruption within Kazakh officialdom confirmed central leadership claims that Moscow's ability to force its will on the non-Russian periphery had seriously eroded during the Brezhnev years, necessitating remedial measures. Yet, the riots and elite complicity in them also demonstrated the risks of moving vigorously to restore central authority. The unrest in Kazakhstan has brought home to the Gorbachev regime that its initial approach to ruling the non-Russian areas of the USSR was flawed, prompting it to reassess its overall nationality and cadre policies. (p. iii)

Reference 25-July 1987: *Gorbachev: Steering the USSR Into the 1990s* **39** addressed the implications of Gorbachev's mounting internal problems for international security issues and for potential political upheaval in the USSR:

Developments during the past year have increased the chances he will act boldly to sustain the momentum of his program ... Because he seems determined to protect a modernization program that is already under-funded and because the milestones for fashioning the 1991-95 economic plan are fast approaching, Gorbachev is likely to seek arms control agreements in the final years of the Reagan administration rather than wait for the next election. Moreover, the weakness of the reform measures undertaken thus far are likely to become clearer over the next few years. We think Gorbachev is likely to move forward rather than retreat and push through more radical reforms so that they will be in place for the 1991-95 plan period.

... Gorbachev has already asked the military and the population to curb their appetites in return for more later. If his programs do not work out, other leaders could appeal to these constituencies. The risks in a more radical reform and a rewrite of the social contract are that confusion, economic disruption, and worker discontent will give potential opponents a platform on which to stand. Gorbachev's position could also be undermined by the loosening of censorship over the written and spoken word and the promotion of limited democracy.

If it suspects that this process is getting out of control, the party could well execute an abrupt about-face, discarding Gorbachev along the way. (Emphasis added) (p. ix)

Reference 26-13 April 1988: JEC testimony by Douglas MacEachin, D/SOVA, at the end of Gorbachev's third year: [ft40](#)

We foresaw troubles for Gorbachev ... too few investment resources chasing too many needs. The growth targets themselves, we thought, were unrealistic ... There was an acknowledged squeeze on the consumer. Military expenditures remained at the generally low rate of growth but they remained at an extremely high absolute level. There was also a systemic problem ... a party and state bureaucracy which was being pressed for change without any incentive for change. (p. 72)

We continue to think the outlook for Gorbachev's program is bleak unless and until the Soviets deal with the fundamental problems we identified at the outset. The management reforms that Gorbachev has started are pointed in the right direction, but they clearly don't go far enough. At the heart of the issue, we think, is price reform ... organizational changes and price reforms without an accompanying incentive system to drive the implementation are a formula for evasion and circumvention at the working level. (p. 73)

... [in 1987] Soviet GNP grew at less than 1.5 percent-a rate reminiscent of the late Brezhnev period. The new quality-control program (gospriyemka)... proved to be particularly disruptive ... industry grew by only 1.5 percent and the critical machine-building sector did not expand at all... The real loser appeared to be the consumer, who-now three years into Gorbachev's economic program-has seen almost no increase in the standard of living... The leadership had hoped that a strong economic performance last year would provide a firm foundation for the future development of Gorbachev's economic program, but this did not occur... we believe that if, as seems likely, the leadership continues to pursue its high-investment strategy and provides some increase in consumer goods to motivate workers, it will have to tap resources from one or all three of the following areas:

Defense (which) currently claims 15-17 percent of GNP... *Other Sectors* (such as) energy and agriculture, which take about half of Soviet investment annually... *Abroad*...increased exports...especially in selected areas such as energy and machine tools... .

Whatever direction Gorbachev follows, we believe that if the economy continues to perform poorly in the next few years, tension within society and the leadership will increase. Bureaucrats will become increasingly frustrated by loss of privileges and status and by demands that they show greater initiative. Military leaders are likely to become more and more uneasy if benefits of the industrial modernization fail to materialize. Soviet citizens will need to see some improvement in living standards if the regime is to achieve necessary gains in worker productivity and avoid widespread discontent. Although Gorbachev appears to be working against no set timetable, failure to head off these tensions would, at a minimum, make it more difficult for him to pursue his economic program vigorously and could, ultimately, call into question his strong political position at home. (p. iii, iv)

Reference 28-June 1988: *Soviet National Security Policy: Responses to the Changing Military and Economic Environment* **42** addressed internal Soviet debates on "how much is enough" for defense. It offered what was at the time a judgment not widely accepted-that there was a good chance for a sizable unilateral cut in Soviet defense forces and spending:

The reality of the nuclear standoff and an era of tightening economic constraints have stimulated an expanding debate in the USSR on the precepts that guide decisions on the size and composition of Soviet military forces. Much of the public treatment is designed to influence Western opinion by portraying Soviet military aims as nonaggressive, seeking only what is necessary to ensure the security of the USSR. Nonetheless, there is, we believe, persuasive evidence from both classified and open sources that the discourse goes beyond mere propaganda and involves fundamental issues that have important ramifications for Soviet security policy and military forces over the longer term... (Key Judgments, p. v)

The political leadership...has been grappling since the late 1970s with the need to revitalize a flagging economy and modernize an antiquated industrial base. And in 1985 Gorbachev's program for industrial modernization through large increases in production of civilian machinery clearly signaled a more intense resource competition for a military that was already restive after a decade of relatively slow growth in defense spending. (p. vi)

...there seems to be a consensus, whether based on conviction or acceptance of political and economic priorities, that the nuclear standoff can be maintained at lower force levels. This has enabled the military, while guarding its equities (particularly on strategic defense) to support Gorbachev's strategic arms control policies. (p. vi)

Civilian specialists from the major Soviet foreign policy research institutes, however,...argu(e) that securing the USSR from military attack on any level-conventional as well as nuclear-does not require matching or exceeding the quantity and quality of all aspects of the military forces of potential adversaries. They assert that past adherence to this practice has resulted in undue economic strain, that political factors play an increasingly important role in security calculations, and that security can therefore be maintained with a reduced volume of material and human resources for military forces... (p. vi-vii)

Soviet military officers...appear to have accepted that the political and economic realities leave little room for...increased defense spending... But they have taken particular exception to the implicit rationale for unilateral cutbacks contained in the arguments of the civilian specialists. They have defined sufficiency in terms of parity...and assert that 'it is NATO and the West' that set the limits of sufficiency... (p. vii)

In any event, the debate...is really over "how much is enough"; it will not be resolved through theoretical doctrinal tenets but on the basis of the policy agenda and political power of the party leadership. (p. vii)

Some reports claim that Gorbachev has reached an accommodation with the Soviet defense constituency to hold down growth in defense outlays in order to gain the breathing space necessary for progress in his industrial modernization goals-the success of which is seen by the military to be in its own best interests. Even if growth is constrained, the present high level of military spending ensures a continuing large input of new weapons that should keep the defense constituency modified, as long as the military does not sense a serious deterioration of the Soviet side of the military balance. Because so much of the USSR's superpower status rests on military power, however, resistance to any efforts to slacken appreciably the defense effort will not be confined to the military. Indeed, what Soviet military writers tout as the Western thrust into high-technology hardware will continue to be a basis for arguing to increase defense resources. All this suggests that we will see a prolongation of the trend of the past decade-continued high but flat or slowly growing defense spending. (p. vii-viii)

Nonetheless, the meager progress so far in the industrial modernization program, particularly in machinery output, which is the linchpin of the plan, creates powerful incentives for at least a short-term reduction in military procurement and construction, and perhaps even in the size of the active-duty forces. A leadership seeking ways to conserve resources going to the military would not be hard pressed to find elements of the massive Soviet military establishment that seem excessive in relation to "reasonable" security requirements, especially if more weight is given to political dimensions of security. Indeed, a case could be made-and is, in fact, implied in the arguments of some writers-that defense spending could be cut at the same time the effectiveness of the Soviet military is improved. All this leads us to conclude that-barring a major change in the party leadership or in the external situation-there is a good chance that Gorbachev will, by the end of the decade, turn to unilateral defense cuts.

By about this time, CIA analysis had concluded that things had reached a critical fork in the road for Gorbachev-he had to either strike out boldly or retrench. CIA believed-incorrectly as it turned out-that the decisive point would be a major party conference scheduled for mid-1988 and disseminated a paper listing what appeared to be Gorbachev's political agenda for the conference.

Reference 29-June 1988: *The 19th All-Union Party Conference: Restructuring the Soviet Political System*:**43**

[The conference] could mark a watershed in the history of the Soviet system... Gorbachev is counting on the party conference to approve sweeping changes in the Soviet political system in order to breathe new life into his efforts to restructure the economy and build a stronger foundation for regime legitimacy... Changes under consideration, if successfully adopted and implemented, would radically alter the Soviet political landscape by 'democratizing' the party and society, limiting the role of the party in day-to-day economic and social life, and opening the way for decentralized

This assessment turned out to be a bit premature; at this conference Gorbachev temporized in the face of stiff resistance. Many of the reforms the CIA had expected were passed, but the major shakeup of the party did not occur.

CIA analysts, nonetheless, believed the major confrontation had merely been pushed down the road, and CIA's Office of Soviet Analysis laid out this assessment in a memo to the DDI.

Reference 30-27 September 1988: Memo from D/SOVA to DDI Richard Kerr and attached analytic paper by Kay Oliver, *Prospects for a Leadership Crisis* **44**, 27 September 1988:

[Gorbachev] has had some success in moving his reform agenda forward, but his very successes are alienating many elites at all levels of the system. There is a good chance that Gorbachev will accommodate his Politburo critics by backing off from some of his radical proposals for change. Given the depth of divisions in the Politburo, however, there are increasing prospects that conflict will come to a head. Neither the timing nor the outcome of such a confrontation are possible to predict with any precision. The leadership appears to be pulling together to bring the crisis situation in the Caucasus under control, but the conflagration there could lead to further polarization within the leadership that will later result in a denouement.

A sizable portion of the Soviet Politburo—including Ligachev, Chebrikov, Solomentsev, Gromyko, and Shcherbitskiy—have good reason for wanting to be rid of Gorbachev. There appear to be differences among these leaders on some policy issues and they do not necessarily constitute a cohesive coalition at present. But all of them must feel personally threatened by Gorbachev's plans and they now seem to share a belief that the Gorbachev "cure" for the USSR is worse than the "disease"; they fear his program will erode the old foundations of party rule before solid new foundations are built.

The burgeoning nationality unrest has been a key factor leading some of Gorbachev's Politburo peers to conclude that his overall strategy in domestic policy is fundamentally flawed ... it is abundantly clear that glasnost is responsible for unleashing nationality grievances. (p. 1)

Gorbachev so far has not achieved any significant improvement in the overall economic situation, and there is a widespread perception that living conditions are deteriorating. (p. 3)

On balance ... we believe there is a greater chance that events will move toward a dramatic resolution... . there is a good chance that [Politburo members] will move against Gorbachev or that Gorbachev himself will risk a preemptive move to consolidate his power. (p. 4)

Just a few days after this memo was sent forward by SOVA, Gorbachev made the preemptive strike that pushed the USSR into a new chapter.

e Showdown

Reference 31-December 1988: *Gorbachev's September Housecleaning: An Early Evaluation* **45** tried to gauge the longer term impact of Gorbachev's watershed move to circumscribe the power of the CPSU. It described " ... the areas most likely to be affected" as follows:

... Gorbachev now directly supervises the process of strengthening legislative instructions and transferring some executive powers from conservative and resistant party bodies back to the presidency... .(p. iii)

The leadership shakeup has apparently helped Gorbachev's effort to give greater priority to consumer goods and services and may lead to increased diversion of resources from military to domestic economic needs. (p. iii)

The new leadership team appears to be more tolerant of national assertiveness... .

Gorbachev's political shakeup tilts the balance even further in favor of a more pragmatic, nonideological approach to foreign affairs... .

The prospects for advancing `new thinking' on national security issues have increased... . (p. iv)

This paper goes on to say in its main body:

On 30 September, the CPSU Central Committee kicked off a personnel and organizational shakeup of a magnitude not seen since Khrushchev's time. At the surprise plenum, the Central Committee retired several Politburo members of the Brezhnev era, promoted several reform supporters, drastically reorganized the party apparatus, and weakened the position of Yegor Ligachev, who had emerged as spokesman for the conservative wing of the party. The following day, at a hastily convened USSR Supreme Soviet session, Gorbachev further enhanced his power, succeeding Andrey Gromyko as Chairman of the Presidium (p. 1)

The leadership shakeup laid the groundwork for Gorbachev to transfer powers from the party to the state and thereby build a political base for himself outside the Politburo and Central Committee. In particular, Gorbachev hopes to streamline the size and redefine the functions of the party apparatus, while simultaneously shifting some decision making powers to the state presidency and to popularly elected legislatures (soviets) at all levels of the system. (p. 1)

Gorbachev's shakeup of the leadership included a significant reorganization of the party Secretariat and a seeming emasculation of its powers... . In fact, some Soviet officials have said that the Secretariat has been bypassed so effectively that it is no longer a major power entity. (p. 2)

At the very least, the leadership shakeup appears to have tilted the balance in favor of greater tolerance for national assertiveness. Strains in the leadership over national policy have been evident for some time The leadership cannot afford to let national independence movements get out of hand. (pp. 6-7)

... pressure is already evident in the Baltic republics, where Gorbachev's proposed constitutional amendments received a hostile reception on the grounds that they fail to guarantee regional autonomy... . (p. 10)

If perestroika continues to promise more than it can deliver, Gorbachev himself will increasingly be held accountable, and his recent political gains will almost surely be eroded. (Emphasis added)(p. 10)

Reference 32-March 1989: *The Soviet Economy in a Global Perspective* 46 stated in its Scope Note that it was an effort to put Gorbachev's concerns underlying his effort to revitalize the economy of the USSR into context by comparing the USSR's economic performance with that of other countries. Both the Scope Note and the first section of paper-Methods and Sources-describe the fact that the comparisons given in the paper were constructed using the UN "purchasing power parity" standard, and point out that the comparisons "should not be regarded as precise measures. They provide at best an approximation of the relative levels of economic development and performance among countries of the world with very diverse systems." It is noted that the comparisons are for 1985, the last year for which the data are available for all the countries, but that CIA believed they reflected reasonably well the conditions in the USSR at the time (1989).

The Key Judgments of this paper highlight the stark contrast between, on the one hand, the potential represented by the enormous size and resources of the Soviet Union and the promises that had been made to the populace throughout the Leninist system's lifetime, versus the stark reality of dismal performance and promises not met. These Key Judgments follow in their entirety:

When Mikhail Gorbachev became General Secretary of the Communist Party of the Soviet Union in 1985, he assumed command of an economy that was impressive in terms of size and historical performance:

- The estimated value of the USSR's gross domestic product (GDP) was second only to that of the United States.
- The Soviet Union ranked first in the world in the annual production of oil, iron ore, and steel and was the second largest producer of machinery.
- Between 1950 and 1975 Soviet economic growth outstripped that of the United States, and the Soviet economy had increased from about one-third to almost 60 percent of the size of the US economy.

Since the mid-1970s, however, the economy has been faltering. Soviet growth had decreased sharply and by the late 1970s the ratio of Soviet to US GDP has slipped. The USSR now lags the West even further in many important respects:

- Soviet labor productivity measured by GDP per worker is less than half that of the United States, below that of most developed countries, and even below that of some East European countries.
- The West's technological lead over the USSR is large and increasing in fields such as computer-operated machine tools and computer software, in which the West is as much as 12 years ahead.
- Valuable energy resources are being used far less efficiently than in most other developed countries.

Indeed, although a military superpower, the Soviet Union has an economy that in many ways is like that of a developing country. The level of per capita consumer consumption in the USSR, for instance, is far below that of the developed Western countries and Japan. It is about one-third that of the United States and is more comparable to that of countries such as Mexico and Brazil. Moreover, that Soviet pattern of consumption and output more closely resembles that of less developed nations than that of the West:

- The per capita consumption of consumer durables is below that of many Latin American countries, and stocks of high-quality consumer durables such as passenger cars and modern appliances are extremely low.
- Per capita expenditures on consumer services are markedly lower than in the developed West and only slightly higher than in such countries as Uruguay and Portugal.
- Compared to other nations at a similar level of development, the Soviet Union has a much larger agricultural sector. Indeed, the share of agricultural output in GDP is similar to the share in Turkey and the Philippines.

In addition, the USSR—a large net importer of manufactured goods and an exporter primarily of raw materials and fuels—has a trade pattern more like that of Egypt and Mexico than of the major industrial states.

The Soviets have set economic targets that, if realized, would narrow the gap between themselves and the West. We believe, however, that these targets are out of reach. We expect that the Soviet Union will have difficulty maintaining its [present] position relative to the West, much less closing the gaps in technological development, productivity, or living standards.

Reference 33-April 1989: *Rising Political Instability Under Gorbachev: Understanding the Problems and Prospects for Resolution* 47:

The Soviet Union is less stable today than at any time since Stalin's great purge in the 1930's ... Even Gorbachev realizes ... that it is far from certain that he will be able to control the process he has set in motion ... the political stability of the Soviet system could be fundamentally threatened ... The political reforms being introduced could further erode central authority and could give disaffected groups new platforms to challenge the regime ... Under the banner of Glasnost, Soviet citizens are organizing groups that could form the basis of political opposition and are advancing a wide range of demands that challenge central authority. The most dangerous of these are the nationalist movements that have blossomed in many republics, unleashing centrifugal forces that, if unchecked, could threaten to tear the system apart. (p. iii)

Although the influence of Gorbachev's opponents on the Politburo has been weakened, they have a strong base of support among members of the elite who feel threatened by his reforms, including sizable elements in the Central Committee, the party and state apparatus, the military, and the KGB ... There also have been growing signs of frustration among Soviet citizens ... as the March election demonstrated, ... reforms have released pressures for further changes that could undermine the party's monopoly on political power. (p. iv)

Nevertheless, the Soviet leadership has undertaken the hazardous path of radical reform because it believes that the old system was failing and that, in the long run, it would have been more dangerous to do nothing. Particularly while Gorbachev remains at the helm, the leadership will not be easily swayed from this path. It specifically recognizes that the highly centralized Stalinist economic model was increasingly ill suited to reversing the economic slide that began under Brezhnev and narrowing the technological gap with the West. At the same time, Soviet political institutions were failing to provide social liberties and legitimate channels for airing concerns to a population that is increasingly well educated and informed. Corruption, abuses of privilege, and unfulfilled promises under Brezhnev compounded these problems by increasing popular cynicism and alienation and helping to erode the legitimacy of the regime. (p. iv)

The next several years promise to be some of the most turbulent in Soviet history. Indeed, while the kind of turmoil now being created in the USSR has been effectively managed in many countries, in other countries it has contributed to the destabilization of the political system. There are too many unknowns to determine whether Gorbachev will be able to control the process he has started, or if it will increasingly come to control him, making a wide range of outcomes possible over the next five years:

- If Gorbachev's reforms begin to produce tangible results and if he is lucky, he should remain in power and prevent any of the potential problems he faces from getting out of control, while continuing to move his reforms ahead.
- A growing perception within the leadership that reforms are threatening the stability of the regime could lead to a conservative reaction. This would probably, but not necessarily, involve a transfer of power—with a majority of the Politburo voting Gorbachev out, as happened with Khrushchev in 1964—and a repudiation of many aspects of reform.

- Those pressing for a maximalist agenda could gain control of the political system as a result of democratization and glasnost-as happened in Czechoslovakia in 1968-and force Gorbachev out. (p. v)

Reference 34-September 1989: *Gorbachev's Domestic Gambles and Instability in the USSR 48*, while looking at a number of alternative futures, included a judgment on one aspect that was likely to hold almost regardless of which of the postulated futures materialized:

whether or not Gorbachev retains office, the United States for the foreseeable future will confront a Soviet leadership that faces endemic popular unrest and that, on a regional basis at least, will have to employ emergency measures and increased use of force to retain domestic control. This instability is likely to preoccupy Moscow for some time to come and-regardless of other factors-prevent a return to the arsenal state economy that generated the fundamental military threat to the West in the period since World War II. Moscow's focus on internal order in the USSR is likely to accelerate the decay of Communist systems and growth of regional instability in Eastern Europe,Instability in the USSR will increase uncertainty in the West about proper policies to pursue toward Moscow, reflecting nervousness about Soviet developments but non-nonchalant about defense, and will strain domestic and Alliance policymaking. (p. vi)

By putting economic reform on hold and pursuing an inadequate financial stabilization program, Gorbachev has brought Soviet internal policy to a fateful crossroads, seriously reducing the chances that his rule-if it survives-will take the path toward long-term stability. (p. vii)

Gorbachev has no easy option, and other gambles would have produced other problems. Wherever those problems might have led, the set of problems Gorbachev has in fact fostered is likely to lead in the future to major instability in the USSR ... with escalation of ethnic assertiveness generally since 1988, the radicalization of Baltic demands, and the growth of Russian nationalist sentiment, the stage is being set for major Russian/non-Russian conflict. (p. 9)

Gorbachev's gamble on protracted transition to marketization, unless modified, is likely to delay serious economic revitalization indefinitely and create conditions of chronic instability irrespective of the destabilizing impact of ethnic conflict Within the party, divisions now visible pitting natives against Russians within the republics, republic party organizations against other republic party organizations and against the center, RSFSR oblast party organizations against the Central Committee apparatus, and liberal against traditionalist factions, will continue. And Gorbachev's personal authority within the party and among the population will probably continue to decline. (p. 10)

The chances that Gorbachev will successfully overcome the dilemmas (many of his own making) that confront him are-over the longer term-doubtful at best. (p. 13)

Over the ensuing year, all of the nationality problems that CIA described became worse, the economy-caught between Gorbachev's rending of the old system and tentativeness in moving toward some form of real market reform-plummeted, and the political fallout for Gorbachev was intensified by the dramatic collapse of the Communist governments in Eastern Europe. By the spring of 1991, CIA analysis treated the prospects for some kind of denouement as highly probable, with the main uncertainties being timing and form rather than "whether."

Reference 35-25 April 1991: This was laid out starkly in "The Soviet Cauldron," 49 a memo from George Kolt, then D/SOVA, which was requested by the National Security Council and disseminated to key policy officials:

Economic crisis, independence aspirations, and anti-Communist forces are breaking down the Soviet empire and system of governance.

The centrally planned economy has broken down irretrievably and is being replaced by a mixture of republic and local barter arrangements, some of whose aspects resemble a market, but which do not constitute a coherent system. (p. 1)

In the midst of this chaos, Gorbachev has gone from ardent reformer to consolidator Gorbachev has truly been faced with terrible choices in his effort to move the USSR away from the failed, rigid old system. His expedients have so far kept him in office and changed that system irretrievably, but have also prolonged and complicated the agony of transition to a new system and produced a political stalemate in the overall power equation. (p. 2)

Of all ... possible explosions, a premeditated organized attempt to restore a full-fledged dictatorship would be the most fateful in that it would try to roll back newly acquired freedoms and be inherently destabilizing in the long term. Unfortunately, preparations for dictatorial rule have begun in two ways:

- Gorbachev ... is increasing the chances of it through his personnel appointments.
- More ominously, military, MVD, and KGB leaders are making preparations for a broad use of force in the political process. (p. 3-4)

The long-term prospects of such an enterprise are poor, and even the short-term success is far from assured. (p. 5)

Even a putsch is not likely to prevent the pluralistic forces from emerging in a dominant position before the end of this decade. (p. 6)

Reference 36-May 1991: *Gorbachev's Future 50*:

Whether or not [Gorbachev] is still in office a year from now, a major shift of power to the republics will have occurred unless it has been blocked by a traditionalist coup. (p. 1)

The essence of the current crisis is that neither the existing political system Gorbachev is attempting to preserve nor the partially emerging new system is able to cope effectively with newly mobilized popular demands and the deepening economic crisis. In short, the Soviet Union is now in a revolutionary situation, in the sense that it is in a transition from the old order to an as yet undefined new order. As happened in Eastern Europe over the past two years, the ingredients are now present in the USSR-hatred of the old order, divisions in the political elite and its lack of firm resolve, uncertainty over the reliability of the security services, and increasingly mobilized and organized political opposition-that could quickly sweep away the current system and leadership. The reformers' and traditionalists' basic goals for the future are diametrically opposed, so there is little prospect that Gorbachev's so-called centrist course can diffuse the crisis. (p.4)

One of the prospects this paper examined was:

A Hard-line Coup: To take the steps they believe are necessary to forestall a reformist victory, at any point hard-liners may try to remove Gorbachev and install their own regime. The danger would be great if they believe Gorbachev is selling out their interests to the republics. (p. 11)

And the paper concluded:

No matter what happens, the current political system in the Soviet Union is doomed ... Time is working against the traditionalists, however. The longer force is not used, the weaker their position will become...

[but] Even if Gorbachev manages to remain, his domination of the Soviet political system has ended and will not be resurrected. (p. 16)

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