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THE WHITE HOUSE
WASHINGTON

WVS

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ACTION

MEMORANDUM FOR THE PRESIDENT

Authority: NSL Waiver

BY dkf DATE 2/16/2020

FROM: JOHN M. POINDEXTER

SUBJECT: Topics on Which You Might Lead Discussion at the Tokyo Summit

Issue

Would you be interested in leading discussions at the Tokyo Economic Summit on the two topics discussed below?

Facts

At this year's Economic Summit in Tokyo, the first full day of meetings begin with a session which has been scheduled as "unstructured time," in which the Summit Heads of State may discuss matters of interest to them, without a formal agenda. Early indications are that the Japanese may want to discuss education; the British seem to want to focus upon the aging population. Attached for your review are descriptions of two topics on which you may wish to lead discussions during that "unstructured time" session (Tabs A and B).

The topics are:

1. "Living with a Sick Bear" -- The Free World's economic relations with the Soviet Bloc, the economy of which has proven to be systemically unable to keep pace with the West.
2. Agriculture -- The shared burden among the Summit nations of outmoded and expensive agricultural programs that undermine efficiency and limit open worldwide trading opportunities.

NSC #8602581

Discussion

At your meeting with your Personal Representative for the Economic Summit, Allen Wallis, and other Summit advisors in January, you approved the concept of introducing some unstructured time into the Summit agenda in order to discourage the increasing formality of recent Economic Summits. As a result, the Japanese have agreed that the

NSC #8602468

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DECLASSIFY ON: OADR

Mar 27 86 DANZANSKY & Pearson
re Tokyo Summit: Unstructured Time

first session of the Summit on Monday, May 5, will not have a formal agenda, but will be instead an opportunity for the Summit Heads of State to discuss issues that are of importance to them.

The topics described above were two that were identified as being of great economic importance and which are related to the overall Japanese theme for the Summit: Looking Towards the Twenty-First Century.

If you approve of these topics as issues on which you may wish to lead discussion, we propose that a briefing session be organized in which you will meet with outside experts (similar to the meeting held with experts before the Geneva Summit).

Potential disadvantages to your raising these issues in the Economic Summit are:

1. With respect to the "Sick Bear" topic, that some of our Summit partners may respond that you may be suggesting another round of economic restrictions on the Soviet Union. You would have to make clear that you merely want to discuss a long-range strategy for handling the economic problems of the Soviet Union.

2. With respect to the agriculture topic, that it may evoke negative reaction based on domestic political pressures on the Summit partners. You would need to emphasize the possibilities for relieving a common problem through goodwill and compromise.

Recommendations:

OK No

_____ _____ That you read the attached papers describing possible topics on which you might lead discussion at the Tokyo Economic Summit.

_____ _____ That you indicate whether or not you are interested in pursuing these topics as matters for further preparation and briefings.

Attachment
Tab A
Tab B

"Living with a Sick Bear"
Agriculture

Prepared by:
Stephen I. Danzansky

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Tokyo Summit

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NSC Waiver
db 2/6/2020

Possible Discussion on Future of Soviet Economy

Issue

How do the Summit partners respond to an expected long-term poor performance of the Soviet economy, i.e., How do we Live with a Sick Bear?

Facts

- o. The immediate future for the Soviet economy looks bleak. Additions to the labor force will be much smaller than in the past decade, capital inputs are growing slowly and capital productivity has been falling. The dramatic fall in world oil prices will reduce sharply Moscow's hard currency earnings.
- o The Soviet Union will face greater problems in competing militarily with the West as new technologies (e.g., SDI) offer a promise of making obsolete much of the hardware the Soviets have painfully built.
- o We can expect the Soviets to approach the West for large scale economic benefits and advanced technology in an attempt to revitalize their economy.

Possible Outcome

- o Greater awareness among the Summit partners that the West can pursue a more promising path to achieving an improvement in our security. However, it will require a shared appreciation with our allies of the long-run economic and political situation in the USSR.
- o In addition, if we are patient and treat Soviet economic overtures cautiously we can take advantage of the poor Soviet economic performance to reduce their successes in the Third World, diminish human rights abuses, and extend cracks within eastern Europe.

Advantages

- o Should increase allied understanding that time is on our side and that we must be patient. We need not make disadvantageous decisions in such areas as arms control. We should only enter into significant areas of economic cooperation with the Soviets if we can obtain concessions in areas of importance to the West.

Disadvantages

- o Some Summit partners may suggest that we are seeking to engage the Soviets in economic warfare and complain about

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DECLASSIFY ON: OADR

our controls on exports of technology and equipment to the Soviet Union. (This notion can be effectively countered).

Potential Outside Briefers

Briefing will be broken down into two sections (1) future performance of the Soviet economy and, (2) our response. Possible outside experts include:

Henry Rowen (Hoover)
Charles Wolf (Rand)
Vladimir Bukovski (Stanford)
Gregory Grossman (Berkeley)
Vladimir Tremmel (Duke)
Gertrude Schroeder (University of Va.)

Note: This issue has recently been the subject of public debate. See the attached two articles: "Living with a Sick Bear," an op-ed piece by George Will that appeared in the Washington Post, March 9, 1986, which comments on an article by the same name by Henry Rowen of Stanford's Hoover Institute, which appeared in the Winter 1986 issue of the National Interest.

George F. Will 300/178

'Living With a Sick Bear'

MOSCOW—The acrid aroma hanging over the Communist Party congress was the old incense of the communist church: burnt reputation. Gorbachev trashed the reputation of Brezhnev, as Brezhnev had done to Khrushchev, who did unto Stalin . . . world without end, amen.

In the aftermath of the dreary congress, the trajectory of Gorbachev's reputation in the world will be compressed. The steepness of its decline will mirror its sharp but short rise during his first year. Now the United States must design a policy for the opportunities and dangers to be posed by the accelerating decline of the Soviet Union in the Gorbachev era.

Gorbachev's historic role will be to kill the illusion that makes him seem, temporarily, more interesting than he is. The illusion is that the Soviet system is plastic to the will of the leader, and that leaders come with diverse wills. Actually, the leader is, inevitably, an expression of the system that molded him as he rose through it. Problems blamed on the physiognomies of decrepit leaders are now going to be seen as deriving from the

"The sensible way to respond to Soviet decline is by hastening it."

unchanging ideology that rationalizes and makes primitive the self-replicating ruling class.

Gorbachev has turned a scowling face toward the party—the only instrument for controlling the state—and said simply: Control better. Indeed, at the conclusion of his five-hour speech to the congress he praised "heightening the vanguard role" of the party.

Gorbachev wants to achieve economic rationality without an economic market, and with a command economy. That is impossible. He denounced industries that manufactured goods "for warehouses," meaning without regard for consumer demand. But consumer demand is irrelevant in a state run by a party with the "vanguard role" of pulling the benighted people to their "real" interest, which is the convenience of the state. Admit

the principle of consumer sovereignty and the seamless web of Soviet tyranny would unravel.

Here, then, is the paralyzing paradox of Soviet society. It is supposed to be a collectivist society ruled by "science" rather than individualist interests. Yet the interests of the individuals in the ruling class require the pretense of a "science" of progress that is the basis of that class's claim to privileges.

It has been said that the problems confronting the industrialized democracies are solvable by policy changes, whereas Soviet problems require systemic changes. Nothing announced or even foreshadowed at the congress suggests such change. So the Soviet crisis of congealment will continue, and the Soviet Union will become decreasingly suited to the modern world.

Pat Moynihan says the delicate U.S. task is "managing the decline" of the Soviet Union. "For as they come to sense they are doomed, they must become ever more dangerous." Henry Rowan of the Hoover Institution, writing about "living with a sick bear," says the interest of the West is in "letting the Soviet system decay."

One reason Moynihan stresses Soviet decline is to correct conservatives "whose disposition is to angst: the decline of the West, the rise of the SS-18." Rowan, a conservative, stresses Soviet decline to counter the liberal agenda. He argues that Soviet "economic sickness, as opposed to negotiations on arms, is a much more promising path to achieving an improvement in our security."

The Soviet Union has passed the apogee of its doomed attempt to keep pace with the West. As the world becomes more complicated and rapidly evolving, it requires of societies fluidity, adaptability and other prodigies of freedom. The Soviet Union will see the gap between it and the democracies widen—if the democracies keep their nerve and keep the pressure on.

One Soviet strategy will be the combination of parasitism and cynicism known as détente: more subsidized trade with the West, more purchases of technology, more espionage, more anesthetizing of Western publics. The West may think, yet again, that détente, which the Soviet regime desires as an alternative to systemic change, will stimulate such change. Or, the West may offer détente to assuage Soviet desperation that could result in a lunge for supremacy through aggression.

The sensible way to respond to Soviet decline is by hastening it. Policy should be: no détente, and more of the Reagan Doctrine of increasing the cost of the Soviet empire by supporting insurrections at the margins of the empire (Afghanistan, Nicaragua, Angola).

The Soviet Union is no longer (in Churchill's words) a riddle wrapped in a mystery inside an enigma. It is conspicuously an invalid trapped in a bureaucracy drunk on a 19th-century fallacy, Marxism. It is a system being driven toward suffocation and anemia, its deserved destinations.

- The goal is to move all partners toward more efficient, market-oriented agricultural policies.

Advantages

- Could be the first step toward a more statesmanlike approach to agricultural policy that would pay large dividends. Eventually, broad international cooperation could be used as a lever against parochial political forces within the respective countries. Would improve the odds for a successful new round in the GATT.

Disadvantages

- Political resistance to change is powerful, despite the small number of farm voters in each country. Summit partners, especially France, are touchy on this issue because of past disagreements. Also, some partners will push for market sharing, which is worse than no action.

Potential Outside Briefers

Earl Butz
Orville Freeman
Professor D. Gale Johnson
Whitney McMillan
Professor Theodore Shultz

NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20508

March 27, 1986

CONFIDENTIAL

ACTION

W. R. PEARSON
BY NA *dh* 2/6/2000

MEMORANDUM FOR W. ROBERT PEARSON

FROM: STEPHEN I. DANZANSKY

SUBJECT: Tokyo Summit: "Unstructured Time"

As a follow-up to our meeting with David Chew, here is the package regarding discussion topics for "unstructured time" at the Summit. As you suggested, it has been prepared as a memorandum for the President from Poindexter. We would appreciate your informing the right people on the Regan side that this package was going forward.

Because we were interested in getting this material to the President for his review over the weekend, this package must get high priority.

RECOMMENDATION:

That you forward the attached package to the Admiral.

Approve _____ Disapprove _____

Attachment

CONFIDENTIAL

NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20508

~~CONFIDENTIAL~~

Authority Nsc Waiver
BY dhc "E 2/4/2020"

ACTION

MEMORANDUM FOR JOHN M. POINDEXTER

FROM: STEPHEN I. DANZANSKY

SUBJECT: Tokyo Economic Summit: President's
Discussion Topics for "Unstructured Time"

The first session of the Tokyo Economic Summit on the morning of May 5 has been set aside as "unstructured time" in order to encourage free form discussion between the Heads of State.

In order to best prepare the President for participation in this session, the Summit White House Working Group concluded that it would be valuable to identify one or two topics of an economic nature and related to the Japanese theme of Looking Towards the Twenty-First Century, on which the President may wish to lead discussion.

Two such topics have been identified:

1. "Living with a Sick Bear" -- The Free World's economic relations with the Soviet Bloc, the economy of which has proven to be systemically unable to keep pace with the West.
2. Agriculture -- The shared burden among the Summit nations of outmoded and expensive agricultural programs that undermine efficiency and limit open worldwide trading opportunities.

These topics are more fully discussed in the short papers attached (Tabs A and B).

If the President indicates his interest in pursuing these topics, the proposed follow-up would be one-hour briefing sessions on each topic in which the President would meet with outside experts in the relevant fields to obtain an overview of the current debate on these subjects. These meetings would be similar in format to the experts meeting with the President prior to the Geneva Summit. Proposed participants in the meeting are listed in the attached papers (Tabs A and B).

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The advantages of pursuing these two identified topics are that they are both timely, of exceptional economic importance and are important challenges to the Summit nations as we approach the twenty-first century.

Potential disadvantages to the President raising these issues in the Economic Summit are:

1. With respect to the "Sick Bear" topic, that some of our Summit partners may respond that the President may be suggesting another round of economic restrictions on the Soviet Union. The President would have to make clear that he merely wants to discuss a long-range strategy for handling the economic problems of the Soviet Union.

2. With respect to the agriculture topic, that it may evoke negative reaction based on domestic political pressures on the Summit partners. The President would need to emphasize the possibilities for relieving a common problem through goodwill and compromise.

RECOMMENDATION:

That you sign the attached memorandum to the President (Tab I).

Approve _____

Disapprove _____

Attachment

Tab I

Memo to President

Tab A "Living with a Sick Bear"

Tab B Agriculture

THE WHITE HOUSE
WASHINGTON

~~CONFIDENTIAL~~

ACTION

MEMORANDUM FOR THE PRESIDENT

FROM: JOHN M. POINDEXTER

SUBJECT: Topics on Which You Might Lead Discussion
at the Tokyo Summit

DECLASSIFIED

Use Waiver

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2/6/2020

Issue

Would you be interested in leading discussions at the Tokyo Economic Summit on the two topics discussed below?

Facts

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Discussion

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OK No

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Attachment

Tab A "Living with a Sick Bear"
Tab B Agriculture

Prepared by:
Stephen I. Danzansky

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Tokyo Summit

~~State~~ NBC Waiver
2/6/2020

Possible Discussion on Future of Soviet Economy

Issue

How do the Summit partners respond to an expected long-term poor performance of the Soviet economy, i.e., How do we Live with a Sick Bear?

Facts

- o The immediate future for the Soviet economy looks bleak. Additions to the labor force will be much smaller than in the past decade, capital inputs are growing slowly and capital productivity has been falling. The dramatic fall in world oil prices will reduce sharply Moscow's hard currency earnings.
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Possible Outcome

- o Greater awareness among the Summit partners that the West can pursue a more promising path to achieving an improvement in our security. However, it will require a shared appreciation with our allies of the long-run economic and political situation in the USSR.
- o In addition, if we are patient and treat Soviet economic overtures cautiously we can take advantage of the poor Soviet economic performance to reduce their successes in the Third World, diminish human rights abuses, and extend cracks within eastern Europe.

Advantages

- o Should increase allied understanding that time is on our side and that we must be patient. We need not make disadvantageous decisions in such areas as arms control. We should only enter into significant areas of economic cooperation with the Soviets if we can obtain concessions in areas of importance to the West.

Disadvantages

- o Some Summit partners may suggest that we are seeking to engage the Soviets in economic warfare and complain about

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our controls on exports of technology and equipment to the Soviet Union. (This notion can be effectively countered).

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Note: This issue has recently been the subject of public debate. See the attached two articles: "Living with a Sick Bear," an op-ed piece by George Will that appeared in the Washington Post, March 9, 1986, which comments on an article by the same name by Henry Rowen of Stanford's Hoover Institute, which appeared in the Winter 1986 issue of the National Interest.

George F. Will 300/178

'Living With a Sick Bear'

MOSCOW—The acrid aroma hanging over the Communist Party congress was the old incense of the communist church: burnt reputation. Gorbachev trashed the reputation of Brezhnev, as Brezhnev had done to Khrushchev, who did unto Stalin . . . world without end, amen.

In the aftermath of the dreary congress, the trajectory of Gorbachev's reputation in the world will be compressed. The steepness of its decline will mirror its sharp but short rise during his first year. Now the United States must design a policy for the opportunities and dangers to be posed by the accelerating decline of the Soviet Union in the Gorbachev era.

Gorbachev's historic role will be to kill the illusion that makes him seem, temporarily, more interesting than he is. The illusion is that the Soviet system is plastic to the will of the leader, and that leaders come with diverse wills. Actually, the leader is, inevitably, an expression of the system that molded him as he rose through it. Problems blamed on the physiognomies of decrepit leaders are now going to be seen as deriving from the

"The sensible way to respond to Soviet decline is by hastening it."

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the principle of consumer sovereignty and the seamless web of Soviet tyranny would unravel.

Here, then, is the paralyzing paradox of Soviet society. It is supposed to be a collectivist society ruled by "science" rather than individualist interests. Yet the interests of the individuals in the ruling class require the pretense of a "science" of progress that is the basis of that class's claim to privileges.

It has been said that the problems confronting the industrialized democracies are solvable by policy changes, whereas Soviet problems require systemic changes. Nothing announced or even foreshadowed at the congress suggests such change. So the Soviet crisis of congealment will continue, and the Soviet Union will become decreasingly suited to the modern world.

Pat Moynihan says the delicate U.S. task is "managing the decline" of the Soviet Union. "For as they come to sense they are doomed, they must become ever more dangerous." Henry Rowan of the Hoover Institution, writing about "living with a sick bear," says the interest of the West is in "letting the Soviet system decay."

One reason Moynihan stresses Soviet decline is to correct conservatives "whose disposition is to angst: the decline of the West, the rise of the SS-18." Rowan, a conservative, stresses Soviet decline to counter the liberal agenda. He argues that Soviet "economic sickness, as opposed to negotiations on arms, is a much more promising path to achieving an improvement in our security."

The Soviet Union has passed the apogee of its doomed attempt to keep pace with the West. As the world becomes more complicated and rapidly evolving, it requires of societies fluidity, adaptability and other prodigies of freedom. The Soviet Union will see the gap between it and the democracies widen—if the democracies keep their nerve and keep the pressure on.

One Soviet strategy will be the combination of parasitism and cynicism known as détente: more subsidized trade with the West, more purchases of technology, more espionage, more anesthetizing of Western publics. The West may think, yet again, that détente, which the Soviet regime desires as an alternative to systemic change, will stimulate such change. Or, the West may offer détente to assuage Soviet desperation that could result in a lunge for supremacy through aggression.

The sensible way to respond to Soviet decline is by hastening it. Policy should be: no détente, and more of the Reagan Doctrine of increasing the cost of the Soviet empire by supporting insurrections at the margins of the empire (Afghanistan, Nicaragua, Angola).

The Soviet Union is no longer (in Churchill's words) a riddle wrapped in a mystery inside an enigma. It is conspicuously an invalid trapped in a bureaucracy drunk on a 19th-century fallacy, Marxism. It is a system being driven toward suffocation and anemia, its deserved destinations.

Living with a Sick Bear

Henry S. Rowen

WITH the coming to power of Mikhail Gorbachev, the Soviet Union has what looks like functioning, continuing management for the first time in over a decade. This new leadership faces formidable internal problems, ones that have been neglected and have worsened during this period. These domestic problems are so basic and intractable that we should expect important initiatives towards the West in the next several years. Although, naturally, one cannot be confident of how the new regime assesses its situation, what its priorities will be, and how it will proceed, a significant foreign policy shift is likely—although its timing is uncertain. There is one central reason for expecting this to happen.

The stagnation of the Soviet economy

The dominant motivation will be economic. The most authoritative source, the CIA, says that GNP growth averaged 2.5 percent annually over the past decade. There is inevitably some uncertainty about such estimates, and there are reasons to believe that this number is

Henry S. Rowen is professor of public management at the Graduate School of Business and senior research fellow at the Hoover Institution, Stanford University. He is former chairman of the National Intelligence Council, president of the RAND Corp., assistant director of the Bureau of the Budget, and deputy assistant secretary of defense.

probably the upper bound of performance. Actual growth overall might have been less, perhaps close to zero. For instance, most emigres report worsened conditions over this period. Paul Gregory of the University of Houston (as quoted in the *Chicago Tribune* in December 1984), reporting on a large scale survey of Soviet emigres, says that: "About 62 percent of the emigres said their standard of living had gone down in recent years. About 75 percent said productivity was declining. Most put the blame on incentives, particularly a shortage of consumer goods on which to spend their salaries." Although emigre testimony is widely discounted by Western scholars—and obviously should be treated cautiously—there is a consensus among specialists on the Soviet economy that there was a marked slowdown in Soviet growth after the mid-1970s. Several factors seem to be responsible: slower growth in investment and labor inputs, declining productivity of capital and labor, the emergence of bottlenecks in the economy in the late 1970s, increasing costs of raw materials, and the increasing difficulty of producing complex goods in a centrally planned economy. There might also have been a deterioration in the quality of statistics on production as real performance worsened; also, increased inflation in the Soviet Union during this period may not have been adequately reflected in Western output estimates. Beyond measures of goods produced, the increasing divergence between the controlled prices of goods in state stores and market clearing values (given the growing stock of money) has made it increasingly difficult for people to acquire the

goods that are available; there is an additional loss of consumer welfare on this score. In sum, we need to take seriously the possibility that the Soviet Union has been close to a no-growth society in the last decade—at least per capita and in terms of people's perceptions of their own well-being.

Another way of assessing Soviet economic performance is to observe that after closing part of the enormous gap with the West that existed in economic productivity during the 1950s and 1960s—largely through a high level of savings and investment—the gap stopped closing in the mid-1970s. Looking ahead, it is unclear whether this gap in productivity will remain roughly constant (at ten to thirty years for most non-military sectors), grow wider, or resume the process of closure on the West. A continued widening is not out of the question, as the West moves increasingly towards the production of more complex goods and services, ones which pose increasing difficulties of production and distribution for a top-down command economy of the Soviet type.

The immediate future looks bleak—although failure to predict the near stagnation in Soviet performance in the past decade should induce modesty among forecasters. Nonetheless, additions to the labor force will be much smaller than in the past decade, capital inputs are growing slowly and capital productivity has been falling, energy and other raw material costs are rising, and the fall in the real world oil price is worsening Moscow's hard currency earning capacity and, therefore, its potential for importing Western machinery. The CIA forecasts a growth rate of 1.5 to 2.5 percent annually for the rest of the 1980s. This range may be too high and one should not rule out the possibility of declining per capita output over the next decade.

Tougher military competition with the United States

Despite its sustained and successful military build-up, two developments in the military competition with the U.S. and other adversaries must be worrying the Soviet general staff: One is the increase in U.S. weapons procurement

since 1980 (although it must be taking some comfort lately from the prospect of a leveling off). The other is the steadily increased importance of technologies, especially those centering on information processing and communication (computers, stealth, precision weapons) in which the Soviet Union is weak. The U.S. Strategic Defense Initiative is a primary case in point; it is the kind of Western military development that most bothers the Soviet military—because it promises to make obsolete much of what the Soviets have painfully built, and involves technologies that they have great difficulty developing.

The Soviet problem in competing militarily with the West is compounded by the large share of the Soviet security sector in the economy: probably over 20 percent of GNP. (This share includes not only the cost of the military, but also the cost of supporting Cuba, Vietnam, and other parts of its empire, and the hidden and hard to estimate costs inflicted by the military sector on the nonmilitary one.) Despite this strain, there is a widely shared view among Western specialists that Moscow will continue to increase its military spending throughout the 1980s at a rate of 2 to 3 percent per year. This may happen, but if the Soviet economy doesn't grow much, the military sector can increase only at the expense of consumption, investment, or support of the overseas empire. The regime will probably protect the level of consumption; this leaves investment and the military to absorb shortfalls.

A new party ideology—but within a Stalinist economic model

There is growing concern in the ruling elite about economic stagnation, increased corruption and worsened popular morale. Vladimir Shlapentokh of Michigan State University holds that a new ideology has been developing within the party that regards economic efficiency as the basic factor affecting not only the standard of living but also the international position of the country. Peter Reddaway, of the London School of Economics, in a recent issue of the *New York Review of Books* argues that many people find the status quo "unacceptable," one

characterized by a mounting and intolerable "lack of order"—corrupt, ineffective, increasingly burdened with social ills of many kinds. He expects change—in the direction of reform rather than reaction—led by Gorbachev after he consolidates his power, at the earliest next February at the Twenty-seventh Party Congress. He sees Gorbachev as tempted by restricted forms of capitalism but not now in a position to risk making radical changes.

If Gorbachev is biding his time until he has more power, he is concealing his radical intentions well. He says (to *Time* magazine's editors and others) that progress is to be made through increased discipline and the strengthening of centralization in strategic areas of the economy; he also says there is to be a broadening of autonomy of enterprises and the encouragement of initiative and enterprise. The themes of increased labor discipline and attacks on corruption were prominent in Andropov's brief reign and are receiving fresh support under Gorbachev. An unprecedented campaign against alcohol consumption is already under way. These efforts may have some effect, but there are good grounds for skepticism as to how long they will last given the irrationalities of the economic system. As for decentralization, in order for it to make a significant difference, the power to hire, fire, and set prices—among other economic decisions—would have to be moved far down in the system and a looser labor market would have to be tolerated. In short, it would require movement towards a market system. For instance, much good could be accomplished by legitimizing the second economy and allowing it to expand. Such steps in a market direction can have a dramatic and rapid effect, as the recent experience of China shows. There has been discussion of such ideas in the Soviet press but there is no evident top-level support for them—so far.

The chairman has recently announced economic goals for the next five year plan, and to the year 2000, which are held to be free of the "groundless fantasies" of past plans but which call for a near doubling of national income by 2000 (implying a real annual average growth rate of 5 percent) and an increase of labor

Gorbachev v. Alcohol

Pravda, the official newspaper of the Soviet Union's Communist Party, has been making regular progress reports on the success of Mikhail Gorbachev's campaign against drunkenness and alcoholism, which the newspaper said has met with wholehearted approval of the people. A Soviet leader's programs invariably are reported to be successes, and Gorbachev's is no exception. *Pravda* said alcohol-related crimes and "hooliganism" have decreased in number; among workers, pressure from management has cut down the rate of drunkenness; and a new magazine, *Sobriety and Culture*, is about to hit the stands.

Propaganda campaigns urge universal ostracizing of anyone who deviates from "communist morality." That apparently includes those who engage in "dishonesty, bureaucratism, arrogance, and money-grubbing," not to mention sneaking a nip at the bottle. Huge increases in liquor tax have led to expansion of the moonshine industry. Soviet authorities have seized a large number of illegal stills. They say that working people's leisure time now "is becoming meaningful." Production of soft drinks, ice cream, and confectionery has been stepped up. Evidently Ogden Nash's immortal words have not yet reached the Kremlin: "Candy is dandy, but liquor is quicker."

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productivity of 130 to 150 percent (implying around 6 percent annual improvement). This is to be achieved through better technology and re-equipping and reorganizing existing plants and not expensive new projects. A Soviet Union that allowed the market much more scope could very likely achieve such goals, but not the present system. Either Gorbachev is a closet quasi-capitalist, as Raddaway suggests, or these goals will turn out to be like Khrushchev's "fantasies."

What is particularly striking about Gorbachev's line is the virtual absence of measures that would produce economically meaningful "autonomy" of enterprises. The French historian Michel Heller observes that

Gorbachev's formulations are remarkably like those of Stalin in 1931-32; Stalin is cited as the creator of the relevant economic model for the Soviet Union today. There is no place for the workings of the market in that model. And, despite contrary indications, if Gorbachev tries to move in this direction, the resistive forces in the party apparatus will be powerful. In short, more than *policy* changes are needed; *system* changes are needed, and these now look unlikely. Instead, the new team in Moscow apparently will try policy tinkering and, if that is all it does, it will discover over time that things have not gotten better. The tinkering may even worsen them.

Sooner or later other approaches will be needed. The only truly effective one, and one such a regime will be most reluctant to try, is to follow the Chinese down the capitalist road.

Other aims: some even more pressing

Although improving on poor economic performance is the basic problem his regime faces, Gorbachev has a more urgent personal aim: establishing firm control over the party apparatus and government organs. He will also be working on making sure that Eastern Europe remains under firm control, moving ahead with military modernization and endeavoring to pursue gains—and limit losses—in the Third World. He is already fast off the starting line with a major nuclear arms control proposal. Although operating from a position of increasing relative economic weakness, Gorbachev is also operating from a position of current military strength, and there is good reason to believe that traditional Soviet geopolitical goals will be pursued: the use of its great military power to maintain control over the country and the East European sector of the empire, the dominance of peripheral areas, the build-up of nuclear forces as a background element in the overall correlation of forces, and the support of friends around the world where such support can be provided at no great cost or risk. Gorbachev's relative youth, vigor, and apparent competence are a plus, but the stagnant state of the Soviet economy is likely to be an increasing drag.

The question needs to be asked whether a situation of current relative strength and likely future weakness could produce a Politburo decision to strike a decisive blow against the West. There is no basis for believing that it would risk nuclear war, or any major war for that matter. But it might take more chances than in the past in exploiting opportunities to extend its power in circumstances that promise to produce a major strategic gain. Among the potentialities, a move against Iran and the oil resources of the Persian Gulf, if an opening presents itself or can be created, seems the most important contingency against which to guard.

Turning Eastern Europe into a source of help

During the 1970s the Soviet Union subsidized the economies of Eastern Europe mainly by underpricing the oil that it shipped to them. There is controversy about the magnitude of the net transfer involved, but there is wide agreement that it was positive. Despite this subsidy, the economic performance of Eastern Europe deteriorated badly after the late 1970s. This help has been a price paid by Moscow to hold down the probability of political instability in the area.

The new management in Moscow may have a different view. A June 21, 1985 article in *Pravda*, widely taken in Eastern Europe to be an important policy signal, said that "a widening of the private sector is fraught with serious economic, social and ideological consequences." Instead, what is needed is a "qualitatively new level of economic integration" within the Soviet bloc. Other channels have been communicating the same message to the East Europeans. This position not only bodes ill for the East European economies, it reinforces other signs of no market-type reforms within the Soviet Union itself.

This position implies no or reduced subsidies on the pricing of oil and gas and increased shipments of relatively advanced machinery to the Soviet Union from Eastern Europe, instead of their export to the West. A major shift in the terms of trade would be a serious blow to the East European economies, which even now are struggling to meet their delivery requirements

to the Soviet Union, to generate current account surpluses with the West in order to service their debts, and to meet consumption levels essential for political stability at home. The vetoing of greater use of the market would deny the East Europeans the only path out of their economic stagnation. There is evidence of differing views on these matters in Moscow, and the *Pravda* article line is unlikely to be the last word. But if Moscow adopts a Stalinist line, this can only produce a further worsening of economic conditions and increase the likelihood of political turmoil. Over the longer run, there is no real economic relief for Moscow in such a policy.

II

The search for reduced pressure—and help— from adversaries

In this situation it seems likely that the main line of policy will be to seek relief and even help from the West in the near term, while still pursuing the long term goal of trying to do the West in. Such a line should not surprise us; it is essentially the early 1970s détente formula as seen from the Soviet side. It worked for a while then, for reasons that had much to do with the weakened American condition caused by Vietnam and Watergate, and Richard Nixon's vision of how to deal with the Soviets. Although circumstances are less favorable now, no more attractive scheme is likely to be perceived in Moscow.

Soviet leaders see the democratic West as a permanent foe—fortunately, one that is far from unified on its policies towards Moscow, but unfortunately, one that is stronger technically and economically. They must be powerfully attracted to a strategy seeking the weakening of U.S. defense efforts, the further political division of the West, and the acquisition of Western technology and capital.

Signs of such an effort are multiplying. Soviet officials are dangling increased business opportunities before Europeans and Americans; there are approaches to the American Jewish community and to Israel; there are rumors of impending replacement of the officials responsible for the especially hard-nosed Moscow line

towards Japan; and an agreement for increased trade with China has been announced.

Most immediately important, both to set the stage for other initiatives and for its potential direct military benefits, is the ambitious line Moscow is taking on nuclear arms control. Reduced military competition from the U.S. will continue to be sought via the arms control process. An important purpose is to free the regime from the burden of having to make even greater military investments than it has made in the past two decades, many of which it now sees as threatened with obsolescence by advancing Western military technologies. In addition to killing the U.S. Strategic Defense Initiative, cuts are sought in U.S. offensive missile programs (e.g. the INF deployment in Europe, the MX and Midgetman ICBMs, the Trident II, the Stealth bomber). The Soviet proposal to limit "nuclear charges" to 6,000 on each side, along with its proposal to ban new types of arms after a certain date, fits such a strategy.

The Soviet military seems to recognize the importance of moving more rapidly to incorporate what in the West are called "emerging technologies," for the most part ones based on electronics. How is this to be done given Soviet backwardness? Some designs, products, and production equipment are bought or stolen in the West, but many more are needed. It seems likely that the Soviet military is an important voice lobbying for the import of more equipment and technology from the West, both to strengthen the industrial base and to get more technology for incorporation directly in weapons.

There may even be a faction looking for military cuts analogous to those Khrushchev made. If such a faction exists, it probably won't get very far given the centrality of military power to the regime and the important role in Soviet doctrine of having dominance in both nuclear and conventional forces. But the regime surely is trying to avoid having to spend significantly more money on the military.

For these reasons, help will be sought from several sources, especially Western Europe, and within Europe especially from the Federal Republic of Germany. Moscow will seek technol-

ogy, joint projects that bring capital equipment, and subsidized loans. It will also try to get these from the U.S. and Japan, but with lower expectations of success.

Objections to dependence on the West

The Soviet Union's economic policies have always been autarkic; heavy involvement with the capitalist world has always implied vulnerability. Gorbachev has said that the regime will lose its justification if, among other things, it "becomes economically dependent on Western countries." Significantly, although most of the East Europeans got into heavy debt with the West in the 1970s, the Soviet Union did not. Its hard currency debt (net of its foreign assets) is only around \$10 billion, while its hard currency exports are around \$30 billion a year. (Wharton Econometric Forecasting estimates that the Soviets have \$35 billion in outstanding loans to LDCs. It isn't clear how much of this amount could actually be collected, though.) It probably could borrow another \$25 billion or so from Western banks before they reach their limits (although a weakened debt service capacity stemming from a decline in the price of oil would temper the bankers' enthusiasm). But with enough Western government guarantees there would be practically no limit to what could be lent.

Despite a preference for autarky, there has been growing economic interaction with other nations. Most striking has been the Soviet Union's growing—and practically unavoidable—dependence on Western grain supplies. Vladimir Trembl of Duke University has estimated an overall growth of dependence on imports (from all sources including Eastern Europe) from 8 percent of national income in 1960 to 20 percent in 1980 (measured in domestic ruble prices). A recent Soviet statement by V. Seitzovskii has revealed that the share of imports in total investment in machinery rose to 35 percent in the early 1980s by comparison with 15 percent a decade earlier. Despite this growth—or in part because of it—there is a powerful lobby in the Soviet Union opposed to dependence on imports of Western equipment. The state of the domestic economy being what

it is, the advocates of non-dependence on the West are likely to lose more ground in the internal debates, but they will be continuing cautionary voices on the perils of excessive dependence on the West. The result is likely to be a mixed strategy, one that includes internal tinkering, increases in equipment imports from Eastern Europe, plus an approach to the West for technology and equipment.

What does Moscow have to offer?

The natural level of trade between the Soviet Union and the West is low. Raw materials, and weapons, make up most of what the Soviets have to offer the rest of the world. Its manufactured goods are too low in quality to be of interest outside the less developed world. As for raw materials, these have been intensively developed and sold in the West. But these commodities are also available from other parts of the world, and declining prices in the 1980s have greatly reduced the value of these Soviet assets. Probably the only commodity not fully exploited in the Western (in this case European) market is Siberian natural gas; worries about security of supply limit European purchases. In short, although there is money to be made by some Western businesses on particular deals, Moscow does not have a great deal in hand economically with which to tempt Western governments. It has other assets of value, however: military forces and programs; ventures in the Third World; Jews and other minorities and political dissidents; and control over Eastern Europe.

Its military programs are at the core of the regime's power in the world. The impressive increases in Soviet power, both conventional and nuclear, and the growing reach of this power are a well known story. Europe, Japan, Southwest Asia, and China are directly threatened. Overarching is the enormous increase in Soviet nuclear power.

Arms control treaties and agreements have failed to contain the relative growth of Soviet military power. The method that was highly successful in SALT surely commends itself to Gorbachev for the future. Through SALT I, Moscow in 1972 succeeded in killing the nascent

U.S. ABM program while preserving the core of its own program (the Moscow ABM system plus an ambitious research and development program), and reinforced the existing American disposition not to invest heavily in offensive forces even as the Soviet Union greedily expanded its own offensive investments. This arrangement ran into serious trouble after the late 1970s and is in need of refurbishment. Gorbachev's recent proposal for drastic cuts in offensive forces and an end to the U.S. Strategic Defense Initiative is a bold attempt to bring back the old SALT-detente regime.

This move is well matched to Western public susceptibilities; it is a good example of how to play a not-very-strong hand boldly. We are not seeing Gorbachev coming hat in hand looking for relief from the military competition, and we will not. Instead, playing from near term strength (and perhaps hidden fear of long term weakness) we should expect a bold stance on the main fronts, threats of an even greater arms build-up, or more activities in the Third World (for instance against Pakistan). The message is that the new management is able to make things tougher for the West—but is willing to be more flexible. But although the Soviets can expand selected military programs, they are in an increasingly poor position to compete with the West on a broad military front.

The major target of this campaign will be Western Europe and, especially, the Federal Republic of Germany. Moscow sees a strengthened Euro-detente as likely to yield not only substantial economic benefits but also a reduced NATO military effort and a further widening of differences between Europe and the U.S. Although the Soviets will not consciously endanger their hold on Eastern Europe, they are likely to soften their position on MBFR and in the Euro-missile negotiations.

Japan is a more difficult case. The potential has long existed for a large Japanese contribution to the economic development of the Soviet Union, especially Siberia, but gaining these benefits would require a marked shift in Moscow's line toward Japan, and especially a Soviet change on the four northern islands. A visible reduction in forces there would soften

the Japanese, but a real breakthrough requires the return of these islands to Japan, an unlikely Soviet move given arguments by the military about their value and worries about the precedent for Chinese territorial claims. The new management will be tempted, but is unlikely to decide that Japan's economic contribution would be worth that price.

An accommodation of sorts with China might be sought. It would not yield important economic benefits, but it might make possible reduced spending on Soviet forces on the Chinese frontier. This, one of the three principal concessions sought from the Soviet Union by China (along with Soviet concessions on Afghanistan and Vietnam), is probably the least difficult one on which Moscow could make a modest change.

On the second asset, its ventures in the Third World, Moscow might dangle suggestions that its support for Nicaragua is negotiable if linked to the ending of U.S. support for the Afghan resistance, or that something might be done in Africa or other places of marginal interest to it. On balance, the record suggests that no basic concessions will be made on the Soviet periphery (e.g. Afghanistan) and that the regime will not easily be discouraged from continuing to try for gains in the Third World whenever these seem possible at no great cost or risk. Achievements in this latter arena have been one of the chief accomplishments of the Soviets in modern times, and they will not easily be dislodged from seeking further gains if they can be gotten on the cheap.

With respect to internal hostages, and the political dissidents, the condition of the Jews has worsened; emigration has been reduced, and the Jewish refuseniks are under attack. Its feelers to the U.S. Jewish community, and the hint of renewed relations with Israel, suggest the potential of an increase in Jewish emigration—in exchange for Israeli acceptance of a greater Soviet role in the Middle East, and as a way of reducing American objections to economic help to the Soviet Union. The reduction of these abuses would be part of the stage-setting for a wider detente, and a higher level of emigration would in all likelihood be a compo-

ment of a deal, as they see it.

In contrast, we should expect no easing of the repression of political dissidents. On the contrary, everything points to a continuation of their systematic suppression.

Its control over Eastern Europe—a position from which it also poses a profound threat to Western Europe—is a fourth asset, one of great interest and concern to Western Europe and the United States. However, the maintenance of this control is seen as so essential to the security of the Soviet Union and even to the regime's control over the Soviet Union that it is not an asset to be considered in negotiations. Put differently, if the regime is eventually willing to enter into discussions that bear on the status of that region, its view of its own future at that point would indeed be bleak.

Economic benefits Moscow might seek

What Moscow *wants* is the wholesale reduction of central control over its economic system. What it will probably *seek*—overcoming the objections of the economic chauvinists—is technology, especially, and Western capital equipment (with embodied technology). Moscow will suggest, mainly to Germany and other countries of Western Europe, an array of projects in electronics, robotics, computers, energy, transportation, genetic engineering, etc. Many of these technologies will, of course, have important military applications. Proposed financing will be on concessional terms. The Soviet Union will offer to pay the West back with some of the outputs, with raw materials—its main economic asset—and with modest military and human rights concessions if pressed.

The Soviets will be prepared to strengthen a Euro-detente, offering benefits both tangible (e.g. export business and emigration of Germans from the Soviet Union and the GDR) and intangible (e.g. bolstering Moscow's "stake" in good relations with Western Europe). Moscow will calculate that the West Europeans, in their own not-too-vigorous economic condition, will be strongly tempted to deal for both economic and political reasons; certainly companies that are potential beneficiaries are willing. Moreover, the West European governments are ac-

customed to mercantilist subsidies on foreign trade, and the subsidizing of communist countries is an established practice. (Daniel Kohler of the Rand Corporation estimates that in 1981 alone total subsidies to the communist world by the OECD countries came to \$3 billion. Much of this came from Western Europe.) Moscow will try, of course, to change its general political line as little as possible, but some softening of its political assault on Western Europe in the last several years is to be expected. It will be warmly received.

III

What should the West's position be?

An angry bear is an especially dangerous creature, but what we are faced with now, as Charles Wolf of the Rand Corporation puts it, is a sick bear. The reputation of Soviet leaders for prudence and caution is well deserved and the new management looks like it will maintain it. If the West can make foreign military moves dangerous, Gorbachev's regime will be reluctant to engage in them. Although there will continue to be a strong preference to avoid direct conflict with the West, the caveat expressed above concerning the possibility of greater risk-taking in the Third World bears repetition.

Without outside succor the Soviet economy will remain backward relative to the market economies (even the not-so-vigorous ones of Western Europe) and will probably weaken relatively. It will weaken dramatically vis-a-vis China if that country remains on its present course. Such an evolution would have several positive consequences for us. The last decade has already seen a slowdown in the growth rate of Soviet military investment, and the chances are good for a further diminution in this rate in the next decade.

The other, potentially even more important consequence is an eventual loosening up of central control of the economy. Such loosening would inevitably entail—sooner or later—the relaxation of political controls and constraints on the authority of the oligarchs in Moscow. This is the key reason for their resistance to such a change. Worsened economic conditions

might also lead to more latitude for East European governments, in order to prevent political outbursts there.

Economic sickness, as opposed to negotiations on arms, is a much more promising path to achieving an improvement in our security. We clearly haven't obtained gains in the past via the nuclear arms control route, and there is little reason to believe that this process will do much better for us in the future. (For instance, the MBFR negotiation has the principal effect of legitimizing the Soviet military presence in Eastern Europe.) So, arguably, the right position for the West is no technology transfer beyond that inevitably associated with the present low level of East-West trade, no long term loans, and no subsidies. There is no reason to expect an early payoff from such a stance, but the longer term prospects are good. There was much unwarranted optimism at the beginning of the cold war about the ability of the Soviets to stay the course. Although they no doubt have the capacity to struggle along, and there is little reason to expect that the regime will lose control as a result of these difficulties in the next decade, we have a much better basis for optimism today than at any time since the late 1940s. Our principal competitor's strength is likely to erode visibly. Left to itself, the sick bear's condition will worsen.

There is, of course, an alternative view. For example, Peter Reddaway holds that we should try to strengthen the position of the reformers, the dissenters, the closet liberals (among whom he counts Gorbachev). These groups are opposed by the neo-Stalinists, members of the *apparatus* who feel threatened, and others who believe that the old ways are the best ways. The reformers and their putative allies, the dissidents, need support against the forces of reaction, and the West should help them through a willingness to implement further arms control measures and economic "assistance"—but the West should also exert pressure on the regime on behalf of the dissidents.

The trouble with this argument is that we have been told before about the "good guys" in the Kremlin who need Western support, only to find that they were largely a figment in the

minds of hopeful Westerners. Although there is much to be said for trying to help oppressed people—and this could have a strategic payoff to the West in time—the evidence is much too tenuous to support the position that the new regime is ripe for a major liberalization and that the West can do much to help bring it about.

Suppose the Western front doesn't hold?

A European might say of this analysis that it reflects American interests, but not European ones. The European interest, it is often held, lies in developing closer relations with the East independently of what happens between the Soviet Union and the rest of the world, including the United States. A not especially sympathetic way to describe the European position is that the Europeans want the benefit of protection from the United States while reinsuring with a more powerful Soviet Union. The upshot is that the United States bears the heavy costs both of helping to defend Europe and of competing with the Soviets elsewhere in the world.

An American view—or at least this American's view—is that the divergence of interest is not nearly as great as is often represented, that Western Europe and the United States are really in the same boat. If there is a difference, the fact that Western Europe is noticeably more exposed to Soviet power than the United States is gives the Europeans an even stronger interest in the decline of Soviet power.

Nonetheless, suppose that the Soviets are correct in the judgment that the West Europeans, and among them particularly the Germans, will deal. There is inherent in this situation the possibility of considerable strain within the Western alliance, itself an important goal for Moscow.

Given the view expressed above on the results of letting the bear falter, but recognizing that this aim isn't likely to be fully shared in Europe, what then might American goals be? An arguable position would be to minimize the help given to Moscow and to extract meaningful benefits for the West in exchange for whatever relief Moscow gets.

The West's assets are, of course, liabilities

as perceived in Moscow, given that regime's nearly zero-sum-game view of the competition. High on the list is the U.S. military capacity—and its potential for growth and technological change. Our increasing ties with China must also be a worry. Our economic strength is an attraction, but the Europeans and Japanese are well-endowed in almost all of what the Soviets need by way of technology and capital equipment. Despite this fact, the U.S. must be seen as the central party with which to deal. Aside from the direct benefits we might produce, things will go much more easily with the others if the U.S. legitimizes increased dealing with Moscow. We obviously do not have veto power over the help our allies give to Moscow, but we do have some influence.

If there is dealing, what would be useful to get?

If things work out badly, what we will get is tension with our allies—similar to the tension over the Siberian gas pipeline deal—and a lot of Western help to the ailing Soviet system. This prospect suggests that we should pursue several specific aims:

- Develop a shared appreciation on the internal economic and political situation of the Soviet Union and the moves it might make.
- Try to win acceptance for a tougher line on the credit-worthiness of the Soviet Union, given declining energy prices and the resultant worsening of Soviet debt service capacity. For instance, bank regulations should be changed to reflect adequately the risks involved in lending to the East.
- Discuss various strategic goals that the West might seek and what they would be worth—and to whom. There will probably be no agreement possible on these goals, but there might be a measure of clarity reached on them before we get embroiled in specific controversial cases.

Consider again the four main Soviet assets discussed above: its military posture, its Third World enterprises, its human rights abuses, and Eastern Europe.

The most important of these assets, its

military strength, has been the object of negotiations for over fifteen years. It should be clear after much experience that no fundamental reduction in the Soviet nuclear threat to the West is likely to be achieved by such negotiations. To the extent that negotiations have been based on the concept of assuring mutual destruction of our respective societies, the efforts have been conceptually perverse. Moreover, the Soviets are violating both the spirit and the letter of these agreements. They have learned that these negotiations are a useful way to bolster opposition to U.S. programs they dislike (e.g., the Safeguard antimissile system in the early 1970s and the Strategic Defense Initiative today) and to create divisions within the West (e.g., on the Euro-missile issue) without imposing serious constraints on themselves. Useful understandings have been reached in limited areas (such as the atmospheric test ban) and some additional narrow areas of accord might emerge, but there is little profit to be had, overall, in pursuing this line.

There may be more profit in focusing on Soviet general purpose forces. After all, it is the Soviet ground, air, and naval forces that pose the greatest danger to Europe and other of our allies. Significant reductions in these forces, or their relocation, could make an important contribution to Western security—but not through “balanced” reductions with the West (as in the negotiations for Mutual, Balanced Force Reductions—MBFR—in Europe). Western Europe needs “unbalanced” force reductions.

Of course, it will be said that because the Soviets will, above all, try to preserve their military superiority versus Western Europe, such an effort would fail. But that is hardly an adequate reason for not staking out a position focused on the most pertinent elements of Soviet power, those that have much more bearing on events that might actually happen in the real world than the possibility of nuclear war does.

A second possibility is to seek changes in Soviet activities in the Third World. Much of what the Soviet Union does there does not have high strategic importance to the Soviets, but these ventures are certainly useful in distracting the Americans; they must also provide deep

satisfaction to the rulers of the last great world empire, which has come a long way in less than seventy years. Now they get to play on the world scene in a way that must be gratifying, particularly by comparison with the limited satisfactions of dealing with problems of drunkenness in the factories or how to handle the irresponsible Poles.

From the American standpoint, it is not difficult to draw up a list of places from which we would like to see the Soviets draw back. High on such a list would be Cuba: for instance, getting Cuban troops back home and Soviet forces out of Cuba (thus rectifying the flaw in the deal on the removal of the missiles in 1962). One's imagination can roam to other regions. Vague "linkage" along these lines failed in the 1970s detente, and we might try harder again. However, given the Soviet leadership's notions about the prerogatives of a great power, the prospects for success are not good. Moreover, Gorbachev might decide to initiate this game himself. The most obvious ploy for him is a "spheres of influence" proposal, conceding U.S. dominance in Central America in exchange for Soviet dominance in Afghanistan—and in Southwest Asia as a whole. Neither on strategic nor moral grounds should such a trade be considered.

Under the third category, abatement of its human rights abuses, Soviet violations are integral to the problems we have with the Soviet system. Much of the time we put this fundamental factor aside in order to deal with others, such as the control of nuclear arms. In contrast, arguably the major and perhaps only concrete payoff from the 1970s detente was a substantial flow of Jews, ethnic Germans, and other minorities out of the country.

The case for giving human rights a high priority has much more to be said for it than those disposed to think only in narrow realpolitik terms might realize. (This is a strong point in the Reddaway position.) The Great Russians no longer make up a majority of the population, and many groups are alienated: the Baltic peoples, the Western Ukrainians, most of the Moslem peoples, the Jews, the ethnic Germans, many Armenians, among others. As for

the East Europeans, it hardly needs to be said that they overwhelmingly reject the Soviet system. The political dissidents' objective is to have a more just society. This is why the Helsinki Accords are potentially important, despite the systematic violation of the Soviet commitments in Basket III. They commit the Soviet Union to the granting of rights which, if granted, would undermine and constrain the Soviet system. That is why Moscow doesn't comply and why their pursuit by us is important. The more that the regime in Moscow is forced to make concessions on these internal matters, the more this reinforces the belief by those peoples who resist Moscow's domination that Soviet power is not unlimited and that the West can force it to make concessions at home. Admittedly, one shouldn't go too far with this argument. Soviet control is firm, and the regime will do nothing (at least consciously) to undermine it. But the regime is in trouble and it has made internal concessions in the past.

So, on this view, if we do get caught up in a negotiating process, we should put specific measures related to human rights high on our list of aims—including the ending of repression of dissidents, improved access by the Soviet peoples to Western media, and the rights of all people to emigrate (not only Jews, Armenians, and ethnic Germans). We should also seek similar steps in Eastern Europe.

We need to think creatively about demands that might be made under this heading. For instance, we should avoid a situation in which we, in effect, pay ransom per head for emigres. This is what the West Germans do with East Germany. It has little moral effect, no fundamental impact on the system. What we should do is try to create a process by which Soviet citizens acquire rights to emigrate and rights to the expression of independent views. That is, we should be at least as interested in creating internal dynamic changes as in the head count of people leaving. Only through such internal changes can the authority of the oligarchs in Moscow eventually be limited.

Regarding the fourth area of possible concessions, the East European part of the Soviet empire, the main goal should be to seek a

relaxation of Soviet control over these societies. Military reduction by the non-Soviet Warsaw Pact might be sought, as well as Soviet force reductions. Again, Soviet nervousness about the stability of these regimes and the threat of loss of its control will set limits to Moscow's concessions.

Although in principle there is a combination of reduced arms, pullback in the Third World, human rights changes, and reductions in Soviet control over Eastern Europe that might warrant major concessions by the West, concessions that would be significant in strategic terms are not very likely to be obtained. Perhaps something truly significant will be possible in five to ten years or so if internal conditions worsen, a possibility that should be alive in our thinking.

The need for protection against renegeing

Our experience with SALT, detente, and the Helsinki agreements should make us keenly aware that the odds are substantial that agreements will be violated. The difficulties we would then face are illustrated by current domestic pressures for us to continue observing SALT II even as the Soviets depart from it. We obviously need to be able to change course as the Soviets renege on their side of bargains. But in addition to the predictable arguments that we mustn't do anything that would heighten tensions, there would be private interests with a continuing stake in Soviet projects (as in the Siberian gas pipeline case). European governments would, predictably, be less concerned about Soviet violations than the U.S., and most of the increased business activities would involve European and perhaps Japanese firms.

There is no good solution to this problem. However, the more tangible the Soviet concessions, the tighter the link to explicit U.S. and Western benefits, the greater the likelihood that we, at least, would react to violations. And at a minimum, any deal we enter should not be accompanied by the usual pears to the achievement of a fundamentally changed world order.

How should the West proceed?

In short, even allowing for perceived differences in interest among Western nations, arguably the collective interest of the West lies in letting the Soviet system decay. This will force it in time to move towards an economically and therefore a politically decentralized system. Such a system will have more constraints on its behavior. If we do—contrary to this advice—get caught up in a broad negotiating process, mainly because the West Europeans will see things differently, probably the least promising objective is a reduction in Soviet nuclear forces and the most promising is action on human rights issues and on Eastern Europe. Not surprisingly, the negotiability of these aims is likely to be in inverse order to their worth to us: it is not difficult to imagine a (mostly cosmetic) nuclear arms accord, some minor concessions on Afghanistan or Nicaragua, and the emigration of a few more Jews than have been let out lately. Such a package would do essentially nothing to change the nature of the struggle between the Soviet Union and the West, while perhaps giving enough economic relief to Moscow to help keep it from scaling back its military programs and to help delay fundamental internal changes.

Fortunately, external help within the bounds of what—pessimistically—might take place won't do much to help such an irrational economic system. This is not an argument for indifference, because even small increments of outside support might enable that system to continue in ways that are dangerous to our health. But it should be some comfort that even the foolish, coerced, and venal capitalists probably won't be able to save that system.

George Kennan, in 1947, supposed that a Western policy of containment would, within ten or fifteen years, promote tendencies to moderate or break up Soviet power. The weaknesses he discerned were its economic backwardness, the disillusion and exhaustion of its people, the uncertainties associated with the transfer of power from Stalin, and the inevitable

emergence of strains within the party structure.

This analysis shares some elements with the Kennan position of 1947, especially on Soviet economic weakness. The Soviets managed the transition from Stalin and have succeeded well beyond Kennan's forecasted period. This analysis does not make a firm prediction

about "the break-up or the gradual mellowing of Soviet power." There is good reason to believe that the Soviet system will be in place ten or fifteen years from now; there is also a good chance that it will be relatively weaker and there is a possibility that it will have "mellowed." But it would be a serious mistake to count on this.

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Tokyo Summit

Possible Discussion on Agricultural Policies

Issue

How could the Summit partners continue to meet their basic agricultural objectives at a reasonable budget cost without undue disruption of world markets?

General Background and Approach

In all our countries, although farmers are a small fraction of the voting population, they have an enormous effect on policies and budgets. More than almost any other sector, we regulate, control, direct, and subsidize agriculture, at a growing, painfully burdensome budget cost. Our programs also have huge hidden costs to our consumers, disrupt world trade and production patterns, and are a constant and growing source of friction among us. It might be worthwhile to speculate a little on the underlying fundamental values, in social and cultural terms, and not just the narrowly political and economic. This might lead us to search for ways to serve these fundamental values, relating to the romance and the admiration we feel toward rural people, that are less costly to society as a whole and less disruptive of production and trade.

Facts

- The agricultural objectives of the Summit partners have been adequate farm incomes and (in Europe) approximate self-sufficiency in food production.
- The cost: Europe, \$14 billion per year; the U.S., \$18 billion per year; Japan, less but similar; large additional off-budget and consumer costs in summit countries.
- Japanese and European consumers pay inflated prices for local apples, beef, etc. due to trade barriers; U.S. consumers pay three times the world price for sugar due to import quotas.
- Trade frictions are mounting, particularly with the EC. The time may be approaching when deals can be cut.

Possible Outcome

- Greater awareness that runaway agricultural programs are a problem that we all share. A nudge from the top might start movement toward multilateral negotiations to liberalize agricultural trade.

- The goal is to move all partners toward more efficient, market-oriented agricultural policies.

Advantages

- Could be the first step toward a more statesmanlike approach to agricultural policy that would pay large dividends. Eventually, broad international cooperation could be used as a lever against parochial political forces within the respective countries. Would improve the odds for a successful new round in the GATT.

Disadvantages

- Political resistance to change is powerful, despite the small number of farm voters in each country. Summit partners, especially France, are touchy on this issue because of past disagreements. Also, some partners will push for market sharing, which is worse than no action.

Potential Outside Briefers

Earl Butz
Orville Freeman
Professor D. Gale Johnson
Whitney McMillan
Professor Theodore Shultz

~~Confidential~~

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CLASSIFICATION

BRIEFING WITH EXPERTS ON FUTURE OF SOVIET ECONOMY

(LIVING WITH A SICK BEAR)

DATE:

LOCATION:

TIME:

FROM: JOHN M. POINDEXTER

I. PURPOSE

To prepare you for discussions with your Summit partners on the future of the Soviet economy and implications for the West.

II. BACKGROUND

There is accumulating evidence that the Soviet economy is performing badly and that the outlook for improvements are poor. An understanding that this is likely to be a permanent condition of the Soviet economy is central to our long-term dealings with the Soviet Union.

This briefing is designed to offer you some new perspectives on Soviet behavior. Of special importance is how we and our Summit partners prepare ourselves to deal with a wide range of overtures from the Soviets as they seek remedies for a failing economy. Although we believe it is premature to suggest specific policies to address this issue, it is important that your Summit partners be made aware of this permanent feature of Soviet society.

At the outset, I will briefly introduce the five experts and review the central theme of the briefing. We have structured the session so that each participant can offer useful insights in his area of expertise. An agenda is provided at Tab A and a more extensive discussion of this issue is provided in the briefing paper at Tab C.

III. PARTICIPANTS

List of participants is at Tab B.

IV. PRESS PLAN

White House photographer only. Picture to be released.

V. SEQUENCE OF EVENTS

I will introduce the five experts and briefly review the issue areas to be addressed. If appropriate, I will make concluding remarks.

Prepared by:
Lou Pugliaresi

Attachments

Tab A Agenda
B List of participants
C Briefing paper

A

PRESIDENT'S MEETING WITH
EXPERTS ON SOVIET ECONOMY

AGENDA

TIME:
DATE:
PLACE:

- I. Introduction John M. Poindexter
5 minutes
- II. Perspectives and Discussion on
Living with a Sick Bear..... 50 minutes
- Implications for the West..... Henry Rowen
- Costs of the Soviet Empire..... Charles Wolf
- Can Soviet Society Adapt to
Gorbachev's Proposals?..... Vladimir Bukovski
- The Soviet Economy and
Growing Dependence of Imports.... Vladimir Treml
- Implications for the Soviet
Military..... Andrew Marshall
- Concluding Remarks..... Henry Rowen

B.

LIST OF PARTICIPANTS

HENRY ROWEN: Senior Research Fellow at Hoover and Professor of Business Administration at Stanford. Formerly Chief of the National Intelligence Board, President of Rand Corporation, and Associate Director in the Bureau of the Budget. Professor Rowen recently published a thoughtful article entitled Living with a Sick Bear and will provide an overview of the policy concerns from a failing Soviet economy.

CHARLES WOLF: Dean of the Rand Graduate Institute. Wolf has done extensive work on the economic problems facing the Soviet Union in providing support for Eastern Europe, Cuba, Vietnam, and Afghanistan. He will make some brief points on this issue.

VLADIMIR BUKOVSKI: Visiting Professor, Stanford University. Professor Bukovski is a Soviet emigre and an expert on social conditions in the Soviet Union. He will discuss the capability of Soviet society to adjust to the Gorbachev modernization program.

VLADIMIR TREML: Professor of Economics, Duke University. Professor Treml is an expert on the economy of the Soviet Union and will discuss the growth in Soviet dependence on Western imports.

ANDREW MARSHALL: Director, Net Assessment, Department of Defense. Andy Marshall is an expert on Soviet military expenditures and will discuss the capability of the Soviet military to adjust to a failing economy.

c

BRIEFING PAPER ON FUTURE OF SOVIET ECONOMY
(LIVING WITH A SICK BEAR)

OVERVIEW/SUMMARY

- o There is an accumulation of evidence that suggests that the economy of the Soviet Union has been performing poorly, experiencing little or no growth over the last decade. Defense expenditures are becoming a heavy burden.
- o The immediate future for the Soviet economy looks bleak. Additions to the labor force will be much smaller than in the past decade, investment is lagging, and productivity is declining.
- o Given the decline in world oil prices the Soviets will experience shortfalls in earning adequate hard currency for key imports such as grain, sophisticated industrial technologies and other major capital improvements.
- o We can expect the Soviets to tinker with their economic organization, but the leadership will not risk the political freedom and loss of control that accompanies decentralized economic reform.
- o A greater awareness among the Summit partners of the permanent inferiority of the performance of the Soviet economy is necessary to appropriately evaluate Soviet economic overtures in coming years. We can expect important overtures from the Soviets in economic and security areas as they confront intractable economic problems.
- o The Soviets face a serious predicament. It's unlikely the performance of the economy can be improved without political reform, but political reform poses risks to party control. We should not ease the Soviets out of this

predicament, but rather use this opportunity to leverage western economic and technology assistance to reduce Soviet influence in the Third World, diminish human rights abuses, lessen their hold over Eastern Europe.

- o We are not suggesting that Western policy engage the Soviet Union in a state of economic warfare. Instead, we want our Summit partners to have an appreciation of the dilemma facing the Soviet leadership and that we have a unique opportunity to improve our security if we treat overtures from the Soviet Union cautiously. At a minimum, we do not want to subsidize the Soviet economy.

OUTLOOK FOR THE SOVIET ECONOMY

- o Although the CIA estimates that Soviet GNP averaged 2.5 percent over the last decade, there are reasons to believe that economic growth was considerably lower. Actual growth may have been closer to zero.
- o The Soviets are facing major bottlenecks, especially in the production of complex, and technologically sophisticated products. Production of these products are especially difficult in a centrally directed economy.
- o Soviet economic problems will be exacerbated by falling energy prices, declining oil production, and a depreciating dollar. These three factors could halve Moscow's ability to import Western equipment, agricultural goods, and intermediate products such as chemical and steel.
- o Moscow has already reacted to the fall in oil earnings with increased borrowing and additional gold sales. There is also a strong likelihood that the Soviets will attempt to increase arms sales to stimulate additional foreign exchange earnings. In addition, the Soviets are cutting

back imports across the board, including imports of important oil and gas equipment.

- o Although difficult to predict, Moscow faces the prospect of real imports falling to levels comparable to the mid-1970's.
- o Moscow has some limited near-term options for coping with the fall in oil revenues. Moscow could:
 - Draw down assets in Western banks perhaps by as much as \$2 billion.
 - Increase borrowing
 - Increase gold sales by \$3 billion a year.
 - Boost exports of more sophisticated weapons, diamonds, chemicals, and nonferrous metals.
- o However, recent evidence indicates that these options are not viewed as an adequate long-term strategy. Instead, Moscow has decided to make substantial cuts in imports, including oil equipment, petrochemical complexes, and major factory fabrications.
- o These economic problems will harm Moscow's attempts to revitalize the economy and compound efforts to compete militarily with the West.

CAN GORBACHEV'S PROGRAM IMPROVE THE OUTLOOK FOR THE SOVIET ECONOMY?

- o Gorbachev has revamped the Council of Ministers and begun to implement a widespread economic modernization program.

- o His approach does not include a major reform of the economic system, but rather relies upon improving the industrial base, new management, more discipline, reduced alcoholism, less waste, fraud, and abuse.
- o Gorbachev expects that Eastern Europe will supply most of the machinery and equipment that domestic producers are not able to provide. However, its unlikely Eastern Europe can deliver.
- o Although Gorbachev is seeking new measures to improve joint ventures with Western firms, the program will remain one of a centrally planned economy not significantly different from the traditional Soviet model. There will be no place for the workings of the market. Gorbachev will tinker with the existing system rather than make major systemic reforms. It is for this reason the success of his modernization program should be viewed as problematical.

IMPLICATIONS FOR THE SOVIET MILITARY SECTOR

- o The problem of competing militarily with the West will become more difficult for the Soviets because of our use of sophisticated technologies (an area the Soviets are weak) and the already large share of the Soviet security sector in the economy, probably over 20 percent of GNP. (This share includes the cost of the military, and the costs of supporting Cuba, Vietnam, and other parts of its empire).
- o Despite this strain, many analysts expect Moscow will continue to increase military spending at a rate of 2 to 3 percent per year.

- o If the Soviets continue to increase military spending at this rate, it will come at the expense of consumption, investment, or support of the overseas empire.
- o If this view of the future of the Soviet economy is accurate, its likely the Soviets will seek relief from the West in the near-term.

THE SEARCH FOR HELP FROM ADVERSARIES

- o The Soviets are likely to seek strategies which will weaken our defense efforts, further political division in the West, and promote the acquisition of Western technology and capital.
- o Some signs of this strategy are already emerging from Moscow. The Soviets are considering measures which would allow foreign equity in high technology industries, soften their position on Japan's northern territories. Approaches to the American Jewish community and Israel and an agreement for increased trade with China are all part of this new initiative.
- o Moscow will continue to seek to kill SDI and attempt to obtain cuts in U.S. offensive missile programs. This would free Moscow from the burden of having to make greater military investments, many of which are threatened by obsolescence from advancing Western military technologies.
- o We can expect the Soviets to offer proposals to strengthen detente with the Europeans. The Soviets may offer greater business opportunities and emigration of Germans from the Soviet Union and GDR.

HOW SHOULD THE WEST RESPOND?

- o If the Soviet economy continues to falter, what we may get is greater tension with our allies as the Soviets promote a wide range of political and economic proposals.

- o We can induce some caution among our European allies by remaining the central party with which to deal -- at least we need not legitimize major new economic relations with the Soviets unless it is tied to genuine concessions. This prospect suggests we should pursue the following aims with our Allies.
 - a shared appreciation of the economic and political situation in the Soviet Union.

 - a tougher line of creditworthiness of the Soviet Union. Bank regulation should reflect the appropriate risks and subsidies should be avoided.

 - a sense that collectively we might be able to extract concessions from the Soviets in its military posture, the Third World, human rights, and Eastern Europe.

II

TALKING POINTS
FOR JOHN POINDEXTER FOR
BRIEFING ON SOVIET ECONOMY

- Mr. President, we are very pleased to have here five eminent experts on the Soviet economy. Our purpose is to give you their perspective on the prospects for the Soviet economy and the implications to the West.

- This is part of our preparations for your unstructured time at the economic Summit. We think it is premature to offer our Summit partners specific policies for addressing a failing Soviet economy, but that it is important that they be made aware of this long-term problem and the choices it presents us.

- What we would like to do today is outline for you a long-term predicament facing the Soviets and some perspectives on how we might address this predicament.

- Henry (Harry) Rowen is a Senior Research Fellow at Hoover with extensive government service. Harry, could we ask you to kick off the discuss and perhaps give us some concluding remarks at the end.

(Harry will argue that there is accumulating evidence that the Soviet economy is failing. He will provide an overview of what Gorbachev's modernization program and what we can expect from the Soviets in the near-term and what it means for the West).

- Charles Wolf is Dean of the Graduate Institute at Rand and has done extensive work on the costs of the Soviet empire. Charlie, picking up on Harry's overview do you think this means the Soviets are vulnerable in parts at their empire, especially Eastern Europe?

(Charlie will argue that the Soviet Empire is costly, but within Soviet capabilities to maintain it. However, he will point out that the Soviets will be taking more risks with Eastern Europe providing opportunities for the West to loosen Soviet influence there).

- Vladimira Bukovski is a visiting Professor at Stanford and a Soviet emigre. Vladimir, do you think Soviet society can adapt to Gorbachev's proposals for greater discipline, reduced alcoholism, improved worker productivity?

(Vladimir will argue that these returns are unlikely to be sustainable and the fabric of Soviet society will come under increasing stress, Gorbachev's program in this area will lead to little long-term improvement).

- Vladimir Trembl is Professor of Economics at Duke University and an expert on the Soviet economy. His work on Soviet import dependence is a key ingredient to our discussion. Vladimir do you think the Soviets could get their economy back on track with greater imports from the West?

(Trembl will argue that there has been a growing Soviet dependence on Western grain and technology, and that the Soviets will be unable to rid themselves of this dependence).

- Andrew Marshall is Director of Net Assessment at the Pentagon. Andy what does this all mean for the Soviet military?

(Andy will argue that a failing Soviet economy will place severe stress on the Soviet military and that we can expect a range of proposals from the Soviets to reduce their burden).

- Harry, would you like to make any concluding remarks?