MEMORANDUM FOR: DCI ER
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DDI

17 JUN 1985

This is background information.

Rarely do we see articles about the joint issue of arms control and economic performance. Attached is one of these rare articles. I found it interesting reading.

I don't know enough about the Soviet economy to know whether there is anything to this story or not.

If I can do more to assist you here, please call.

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THE SOVIET ECONOMY AND THE ARMS CONTROL DELUSION

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Negotiations between the United States and the Soviet Union to reverse or at least slow down the arms race have wide appeal. Ideally, by negotiating a mutual reduction—or failing that, a leveling off—of the manufacture of deadly armaments, each country would reduce the economic demands of its military without compromising national security. Indeed, some hold that achieving a reduction would even increase security.

Realizing either goal is not an easy task. Negotiations to reduce military stockpiles have been taking place since the early 1960s, when the two superpowers had barely 2,000 warheads between them. By the early 1980s the U.S. and the USSR had a combined total of approximately 40,000 warheads. Negotiations are still perceived to be the best way to do what it is widely assumed both countries desire to do: namely, reduce the resources devoted to an arms race without losing military parity with the other power. But what of this presumptive shared goal? It may well be that the respective motivations of both nations to come to the bargaining table are not identical. And if their motivations turn out not to be identical, it then remains to be seen whether their ultimate bargaining goals are identical either.

It is commonly argued that the Soviet Union's present motivation to reach an evenhanded arms reduction accord is the weakness of its economy. After all, how can a country with a per capita GNP of less than half that of at least six Western countries—West Germany, Japan, Switzerland, France, Belgium, and the United States—hope to compete militarily against the West? An example of this reasoning can be found among the advisors to President Reagan, some of whom recently said that the Soviet economy has been performing so poorly that pressures are building within the Kremlin to enter into meaningful arms reduction negotiations.[1] In a similar vein, former Secretary of Defense Clark Clifford, after considering Soviet economic problems, concluded:

> The pressure on Soviet decision-makers makes us reasonably confident that their expressed interest in strategic arms talks is genuine. For the Soviet Union even to attempt to keep pace in a strategic arms race of large proportions would be enormously costly for them in financial terms, and it would divert badly needed resources from the civilian economy.[2]

There can be no disagreement that the centrally directed Soviet

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economy performs extremely poorly compared to the U.S. economy, which relies primarily on decentralized markets to allocate resources. And there is certain plausibility to the view that a weak economy increases the need to scale down military spending if it can be accomplished without increasing military vulnerability.

But no matter how plausible it may be, the theory of "poor makes peace-loving" fails when considered in the light of actual events. Despite the Soviet economy's less than robust condition during the 1970s,[3] the Soviets expanded their military strength at a rapid pace throughout this decade.[4] Why did the Soviets continue to build apace during the 1970s? In answering this question, we may discover something drastically wrong with the conventional view that poor Soviet economic performance could or does motivate the Soviets to negotiate to reduce military expenditures. My purpose here is to argue that the inefficiencies that characterize the Soviet economy go a long way in explaining, not an imagined eagerness, but a probable *reluctance* to engage in meaningful negotiations to reduce arms.

Of course this is not to imply that, conversely, an economically healthier Soviet Union would be *more* interested in negotiating an arms reduction or would be less of a threat to world peace. For it is not just the low level of wealth generated in the Soviet Union, but the entire structure of the USSR's political economy that mitigates against interest in arms reduction. The influence that poor economic performance has on the military policy of the Soviet Union cannot be divorced from the centralized poltical and economic structure that guarantees the poor economic performance.

It is in this connection that important differences exist between the Soviet Union and the U.S. In contrast with the U.S. and its system of democratic capitalism, the Soviet system can be expected to possess important advantages in mustering the political resolve necessary to sustain an arms race.

Keeping superpower status

When reference is made to the two superpowers, everyone knows which countries are being discussed. It is unanimously accepted that the United States and the Soviet Union are the two most powerful countries in the world today. As obvious as this fact is, it is worthwhile to consider the basis for each country's claim to superpower status.

In the case of the United States, superpower status is supported by two pillars: economic power and military power. If by some stroke of good fortune we suddenly found ourselves in a world with no international tensions and no weapons or military potential of any type, the U.S. would still be a superpower by virtue of its enormously productive economy. This would not be true of the Soviet Union. In terms of the per capita GNP measure, the Soviet Union is closer to the Third World countries than to the major industrial democracies. A reduction in the military might of the Soviet Union, even if accomplished by a corresponding reduction in the military might of the United States, would erode the Soviets' claim to superpower status, a status that depends entirely on a massive arsenal of armaments and a large military establishment.

A reduction in the military might of the Soviet Union would erode its claim to superpower status.

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From the vantage point of the governments in the wealthy Western democracies, including Japan, it is easy to understand the desire for mutual reductions in the destructive capacity possessed by the two superpowers. Such a move is perceived as one that would reduce the risks of a nuclear holocaust and allow more resources to be devoted to consumer goods.[5] For those who are moved by this approach, there is a strong impulse to assume that it is also attractive to the Soviet Union. Unfortunately, from the vantage point of the leaders of the Soviet Union, bilateral arms reduction would be the same as unilateral status reduction. The international standing and prestige of the Soviet leaders is solely the consequence of the military power they control. And it is quite obviously the case that the Soviet leadership places enormous personal value on their standing and prestige in the world community.

Nikita Khrushchev is a case in point. In his memoirs, Khrushchev acknowledged the "pleasure and pride" he experienced at the Paris Summit in 1960 when Prime Minister Macmillan of Great Britain and President de Gaulle of France conceded that the USSR had surpassed their countries militarily and had to be recognized, along with the United States, as one of the world's superpowers.[6] Clearly, the standing of the Soviet Union in the Third World depends almost entirely on military strength. The Third World continues to seek the favor and involvement of the USSR, but as Dimitri Simes points out, "these requests . . . almost never reflect the belief that communist Russia is a model for Third World development. Moscow's military power and its willingness to provide arms and geopolitical protection, not the appeal of Soviet ideas and accomplishments, are what normally motivate Third World overtures to the Soviet Union."[7] Simes adds, "The nationalist, conservative Soviet police state has no genuine appeal beyond the reach of its tanks."[8] This view of the real attraction of Soviet socialism is acknowledged by the Soviets themselves, as when Sergei Gorshkov, an admiral in the Soviet Navy, stated, "visits of Soviet navy men make it possible for the peoples of many countries to become convinced with their own eyes of the creativity of the ideas of Communism. . . . They see warships as embodying the achievements of Soviet science, technology, and industry."[9]

The implication here is clear, and precisely opposite that of the conventional wisdom. The pathetic economic performance of the Soviet economy emphatically does *not* increase the benefits that the leaders of the USSR perceive to be gotten from mutual arms reduction. Rather, poor economic performance guarantees that Soviet leaders will see reductions in the military might of the USSR, even if the U.S. reduces its military might in tandem, as equivalent to sacrificing its political influence.

Not all American policymakers fail to grasp this. Stansfield Turner, former Director of the Central Intelligence Agency, has said, "One of the reasons they, the Soviet leaders, are putting such emphasis on their military strength is that they are trying to convert military power into political advantage. . . . Military is all that they have."[10] The hope that the leaders of the Soviet Union are sincere in the effort to reach a mutual and verifiable arms reduction agreement with the U.S. is misplaced in large measure *because* the Soviet economy is so weak.

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The prisoner's dilemma

This view is fundamentally at odds with the standard perspective on the problem of reaching an arms reduction agreements. Typically, it is assumed that the U.S. and the USSR are faced with the classic prisoner's dilemma problem in their attempt to negotiate a mutual reduction in arms. As applied to arms control, the prisoner's dilemma setting can be described as follows. If both countries cooperate with each other, they can each reduce their military burden with no sacrifice in national security. This is preferred to the non-cooperative result that finds each country making large military expenditures without gaining any advantage over the other. But, from the perspective of each country, the best possible outcome is a unilateral reduction in the other country's military strength, and the worst possible outcome is a unilateral reduction in its own military strength. Under these circumstances, a necessary condition for one country to behave cooperatively (reduce its arms) is complete confidence that the other country will also reduce its arms. This is not a sufficient condition, however, since if it is known that one country is going to make the cooperative choice it will pay the other country to behave non-cooperatively. Therefore, if each country has to commit itself to a choice without knowledge of what the other country will choose, then the only logical choice, from the perspective of each country, is to remain armed at the present level. Only if the decisions of the two countries can be tied together through some form of information transfer and mutually binding agreement will there be any realistic hope that the disarmament solution will prevail.

Although a major lesson of the prisoner's dilemma is the danger of trusting one's opponent, paradoxically it is easy, in this view, enthusiastically to urge arms control negotiations with the Soviet Union. This is because the prisoner's dilemma view assumes that both sides would be better off with the same outcome—i.e., a mutual reduction in arms instead of the current arms race. Hence it is used to endorse negotiations as the road to the realization of our common interests.

Another reason the prisoner's dilemma model is favored by arms controllers is that its main problem, distrust, is thought to be cancelled out when the dilemma is applied to a series of steps toward a common objective as opposed to a "once and for all" confrontation and resolution. If two parties in a prisoner's dilemma setting know that they will, once their choices are made, never encounter each other again, then acting cooperatively toward what is likely to be an uncooperative opponent cannot provide any long-run benefits. On the other hand, if the two parties are contemplating a series of choices, then it is thought that cooperative behavior will more likely be rewarded with cooperative responses. It is for this reason that Robert Axelrod, who sees reaching agreement on disarmament as a prisoner's dilemma, suggests breaking negotiations down into a series of stages in order to promote cooperation and reciprocity.[11]

However, if one accepts the contrary view that the superpower status of the Soviet Union would be eroded by reductions in military strength, even when matched by comparable reductions in U.S. military strength, and that this superpower status is highly valued by the relevant Soviet decision-makers, then the prisoner's dilemma is no

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longer appropriate for analyzing the problem of achieving a genuine arms reduction agreement with the USSR. Indeed, it may lead to seriously flawed and dangerous policy decisions. If the Soviet leadership sees itself as better off with both countries armed than with both countries disarmed then, no matter how negotiations are structured, the Soviets have no incentive to agree to a reduction in arms. This remains true even if the Soviet leaders know that they could never achieve a dominant position.

Furthermore, as long as there is a widespread view in the U.S. that reaching an arms reduction agreement with the USSR is simply a matter of solving the distrust—or prisoner's dilemma—problem, it is not totally unrealistic for the Soviets to consider trying to achieve military dominance. While the U.S. is in a position to realize clear benefits from a mutual reduction in military force, and U.S. public opinion incorrectly assumes that the Soviet Union is in a similar position, the temptation will be for the U.S. to make futile concessions in arms control negotiations in the hope of eliciting Soviet cooperation.[12] The delusion that lies behind this temptation becomes all the more persistent when the arms reduction agreement is cast, as it necessarily must be, in vague terms. (Even where the terms are unambiguously stated, the difficulties in detecting violations serve the same deluding purpose.)

The cost of Soviet military strength

Given that a weak economy may serve to increase the Soviet demand for military strength, the effect the weak Soviet economy has on the supply, or cost, of military strength, should be examined. Those who argue that the poor economic performance of the Soviet Union motiviates a desire in them for an effective arms reduction agreement seldom, if ever, make clear whether they are talking about demand side or supply side influences. One thing they do make clear, however, is their belief that the inefficiencies in the centally planned Russian economy make it more costly for the Soviets than for the U.S. to supply the manpower and hardware required by an arms race. But it may turn out to be the case that the inefficiency of the Soviet economy actually serves to reduce the cost of the military, at least as this cost is perceived politically.

The cost of providing anything, whether bombs or Band-Aids, has to be evaluated relative to the alternatives sacrificed. Evaluation in these terms follows the economic concept of "opportunity cost." Because there is a scarcity of resources in all societies, "opportunity cost" is always positive. For example, if Soviet leaders devote more resources to military objectives it is necessarily the case that fewer resources will be available for the production of civilian goods and services. Therefore, in order to assess the cost of producing and manning armaments in the Soviet Union we have to consider first the efficiency of their military sector relative to that of their civilian sector.

The utterly dismal performance of the Soviet economy in satisfying consumers' demands is one of that country's least debatable characteristics. The reason for this deficiency is the highly centralized process that directs economic decisions in the Soviet Union. Instead of

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relying on decentralized markets to allocate resources over alternative producers and products, socialist ideology and bureaucratic self-interest in the Soviet Union dictate the making of these decisions, to the maximum extent possible, by central planning authorities. But since Hayek, it has been recognized that "the knowledge of the particular circumstances of time and place" is indispensable to the delicate adjustment of resource allocation over a multitude of alternatives so that as much value as possible is coaxed from society's limited means.[13] It is impossible to accumulate this time- and place-specific information in the minds of a few authorities. In the absence of decentralized market exchange, and the market prices that result, there can be no accurate measure of the relative values that individuals place on competing resource uses. Rational economic calculation is quite literally impossible in a regime of central economic planning.[14]

It is not surprising then that the Soviet economy has done very poorly at producing that precise combination of goods that conforms to the preferences of the Soviet consumers. Poor quality, drab uniformity, wasteful production bottlenecks, and chronic shortages characterize the civilian sector of the Russian economy.[15] The Soviet central planners simply do not have the information necessary to keep resource allocation decisions responsive to the varied, diffused, and changing preferences of millions of individual consumers. And even if through some miracle the planning authorities did obtain the requisite information for directing resources efficiently into the production of consumer products, it is doubtful they would have the incentive to act on their knowledge. In the absence of markets, consumers have no way to reward those who expand the production of valued products and punish those who do not. The rewards go to those who best serve the interests of the political leadership, not the interests of the consumer.[16] In comparing economic systems, one conclusion is obvious: less is sacrificed by the Soviet Union when resources are transferred out of the civilian sector of the Soviet economy than when an equivalent amount of resources are transferred out of the market-directed civilian sector of the U.S. economy.

Less is sacrificed by the USSR when resources are transferred out of its civilian sector.

When we turn from the civilian sector of the Soviet economy to the military sector, we find some rather significant differences. The successes in the military sector are as obvious as the failures in the civilian sector. There is no question but that in the areas of military and space technology the USSR can claim major achievements. Interestingly, these successes can be traced to the same source that explains the failures of the civilian economy: central planning.

Central planning's advantage

The problems of central economic planning are moderated when there are relatively clear straightforward objectives, as is the case in military planning. When the task is increasing military power rather than accommodating the diversity of consumer demands, technical engineering considerations become more important and subjective preference evaluations and tradeoffs become less important. Central planners are capable of directing resources in such a way as to overcome well-specified technical problems and achieve narrowly specified goals. Indeed, a major strength of a centrally planned econo-

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my is its ability to mobilize the entire society for the purpose of accomplishing one overriding objective, such as preparation for war.[17] It is not surprising that during wartime all countries rely extensively on central planning and control, and even during times of official peace the military itself is organized on a command and control basis. There is no reason to believe that, organizationally, the Soviet military is any less efficient than the U.S. military.

But even if the military sector of the Soviet Union is less efficient in an *absolute* sense than the military of the U.S.,[18] this does not imply that the Soviet military is less efficient in any relevant sense. Given the relative efficiencies of the non-military sectors of the U.S. and Soviet economies, there can be no doubt that the Soviet Union has a tremendous *comparative* advantage in the production of arms and military power.[19] It costs less to increase military strength in the Soviet Union than in the U.S. because doing so requires a smaller reduction of civilian output in the inefficient Soviet economy than in the more efficient U.S. economy.

This comparative advantage in military strength will certainly influence the decisions the Soviet leadership makes with regard to distribution of resources between the civilian and military sectors of their economy. And it will work its influence in predictable ways.

A Soviet Union that was distributing its resources between the military and civilian sectors of the economy in the same proportion as the U.S. would not be a superpower. It would have a relatively weak military and, because of the inefficiencies of central planning, it would also have a weak civilian economy. From the perspective of the leadership in such a Soviet Union, it would be rational to capitalize on their comparative advantage in the production of military strength and shift resources into the military sector. It is easy to see that this counter-factual Soviet Union would soon become the factual Soviet Union whose military might we confront today. The demand the Soviet leadership has for military power, and the comparative advantage of the Soviet economy in producing it, work together to make it highly improbable that the USSR will see any advantage in a verifiable arms reduction agreement with the U.S.

Special interest vs. the public interest

We should consider the incentives that guide decisions on the provision of military power within a system of democratic capitalism such as that of the U.S. In contrast to centrally planned political economies, democratic capitalism places the locus of decision-making control with individuals in their roles as constituents and consumers. In democratic capitalism, which has done more than any other system to foster the creation of wealth, the politically perceived cost of the military tends to be greater than that cost in a command control system.

The evolution of democratic institutions reflects the hope of keeping political decisions responsive to citizen preferences just as the institutions of capitalism keep productive decisions responsive to consumer preferences. Although the ideals of democratic capitalism have been achieved to an impressive degree, no system in the real world is ever fully faithful to the ideals that inspire it. The discrepancy be-

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tween the ideal and the real is uncomfortably apparent in a democratic society, even when the success of democracy in comparison to its real-world alternatives is acknowledged. The problems associated with the effective transmission of the desires of the citizens through the democratic process are particularly visible in the case of the demand for national security.

It is typically the case that the broader the benefits provided by a government program, the smaller will be the political demand for that program. It is the demand for government programs promising narrowly focused benefits that will be transmitted most effectively through the democratic political process. There is a straightforward reason for this unfortunate feature of representative democracy. When a program's benefits are spread over a large group, no one in that group will see an advantage in attempting to organize it for the purpose of exerting political influence in favor of the program. Not only will the payoff to each individual from organizing the group be low, but the costs of doing so will be high because of the group's large size. However, when benefits are concentrated on a relatively small group, individuals within the group have a much stronger incentive to contribute to an organizational effort and the costs of succeeding in that effort will be lower. It is the demand for special interest programs, then, that typically activates the political process, not the demand for broad public interest programs.

The implications of this special interest bias for the maintenance of a strong military are clear. No government activity generates more generalized benefits than does providing for the national security. Increasing our military strength increases protection to the entire country. Although when spread over the entire population the resulting benefit may be great, the benefit any one individual receives from another submarine or missile will be so small as to go unnoticed. Therefore, as a beneficiary of military strength, an individual citizen has no incentive to organize to fight for more, or against less, money for the military budget.

The benefit any one American receives from another submarine or missile will go unnoticed.

The lesson here is clear for politicians who are interested in maintaining the advantages of political office. Even though congressmen recognize that their constituents value national security, they also recognize the political gains from transferring funds out of the military budget and into a constituency-specific program. (This explains, for example, why Republican senators recently "jumped ship" on the President's non-military budget cuts to reduce the deficit.) The loss in national security will be spread over the whole of the population and, as a consequence, will be politically invisible, whereas the benefits to a local interest group will be visible, appreciated, and remembered.

This does not mean, of course, that the military budget in a democracy will be depleted completely by special interest politics. It is fortunate that the disadvantage the military faces as a result of the generalized benefit it provides is moderated by the interests of narrowly motivated groups that benefit from military expenditures. The influence of the military-industrial complex is, contrary to its "sinister" popular image, a force for genuine good in a democracy. Without the special interest gains that activate this complex there would be little hope that the demand for national defense would be

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transmitted through democratic institutions.

The common defense

But the political clout of the military-industrial complex is a David against a Goliath of political pressures pushing for the expansion of non-defense programs. Non-military spending can take a wide variety of forms, can be targeted to almost every conceivable group, and constitutes the most politically effective vehicle elected representatives have for serving their constituents. There is always, except during times of national emergency, persistent pressure on political decisionmakers to sacrifice the general advantages provided by a strong military for the special interest advantages realized by expanding domestic programs. This was less harmful when, as was true during most of our history, few problems were deemed the direct responsibility of government, and local governments addressed most of those that were. Providing for the common defense was considered to be the primary responsibility of the national government.

Not until the view that the federal government possessed both the responsibility and the ability to solve a whole host of social problems became well entrenched did the primary, constitutionally mandated responsibility of defense find itself in funding competition with an escalating number of special interest programs. The result has been that for almost thirty years there has been a persistent decline, only slightly interrupted by the Vietnam War and the Reagan administration, in the percentage of the federal budget allocated to national defense. In 1955, 58.1 percent of the federal budget went to national defense outlays. By 1982 this percentage had declined to 25.7.[20]

The opponents of defense expenditures inevitably couple their strong support for social programs with enthusiasm for the benefits that can be realized from arms reduction negotiations with the Soviet Union if only the U.S. will pursue such negotiations in good faith. Good faith translates into being willing to do whatever it takes to ensure that negotiations continue, even if that means ignoring that the Soviets are violating the terms of existing agreements. Strong evidence that the Soviets are actively in violation of the 1972 ABM treaty, the 1975 Biological Weapons Convention, and the 1979 SALT II agreement, is seen as a concern only because it may delay further arms agreements with the Soviets.

As an expert on foreign policy, Richard Nixon has few illusions about the motivations of the Soviet Union or the usefulness of negotiating arms agreements with them. But as a politician he recognizes the political hazards of being forthright about the limitations of arms negotiations. In his recent book, *Real Peace*, Nixon points out that "detente without deterrence leads to appeasement," but then follows immediately with the statement that "deterrence without detente leads to unnecessary confrontation and saps the will of Western peoples to support the arms budgets deterrence requires."[21] This suggests that political reality dictates engaging in arms control efforts if for no other reason than to get political support for military appropriations that are in the national interest.[22]

But even this is overly optimistic. Political opposition to military spending will not be moderated by commitment to arms negotiations

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with the Soviets. Rather, the pretense of success in such negotiations will be seized upon by the opponents as justification to continue diverting resources out of military programs and into special interest programs. Unrelenting political pressures will continue to push for the pretense of success in arms negotiations even though this means making concessions that erode our national security.

A more modest objective

It has been argued here that, because of its weak economy, the Soviet leadership has no interest in a verifiable and enforceable arms reduction agreement with the U.S. A *reduction* in Soviet military strength would undermine the standing of the Soviet leadership in the international community. But what about the hope of realizing a more modest objective than arms reduction; say an arms *control* accord that puts a cap on the arms race without either side having to reduce its existing military strength? Would not such an agreement be in the Soviets' interest? No doubt it would be, because it would allow the Soviet Union to maintain its superpower status without the enormous resource commitment that a futile arms race would require.

If one entertains the comforting assumption that the Soviet leaders are convinced they could not win an arms race with the United States, that such a race would indeed be futile, then one is led to conclude that they would be very interested in reaching an arms *control* accord with the U.S. But even if one assumes the worst—namely, that the Soviet leaders think they could prevail in an arms race with the United States—they would still ostensibly be interested in negotiating an arms control agreement with the U.S.

The reason for Soviet interest in arms *control* as opposed to *reduction* even if the worst is true is that the Soviets have every reason to think arms control negotiations can be instrumental in an attempt to prevail in an arms race. The Soviets can use, as indeed they already have used, arms control as a means of exciting those powerful forces in the U.S. that favor reductions in military spending. These forces see arms control agreements as the measure of success in foreign policy. And, of course, this view practically guarantees that the Soviets will have the upper hand in arms negotiations. Not only does this result in pressure on U.S. negotiators to make concessions if that is what it takes to reach an arms agreement (and the Soviets will make sure that it is), but it also makes it more likely that the Soviets will enter into such agreements with the intention of violating them.

The cost of cheating

Cheating on an arms control agreement is not without the potential for costs, of course, and this potential has to be considered, as well as the benefit potential, when assessing the likelihood of cheating. There are two components to the expected cost of cheating: one, the probability that cheating will prompt the other country to return to the arms race; and two, the loss from a breakdown in an agreement.

Consider first the loss from a breakdown in an agreement. Given the comparative advantage the Soviet system has in the production of military strength, the Soviets can be expected to attach a cost to the mutual abrogation of an arms agreement that is small relative to the cost the U.S. would attach to such an abrogation. The higher cost the

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U.S. would attach to discarding an arms agreement reflects the strong political opposition to expanding military preparedness.

Next, consider the likelihood that if one side does cheat on the agreement, the other side will do likewise. If the U.S. were known to be violating the agreement, the USSR would be expected to respond "tit for tat." This reflects the tremendous decline in international status the USSR would experience if it became a second rate military power. On the other hand, the U.S. would be much less likely to respond in kind if the USSR were known to be cheating. Unless there was a full and open acknowledgement of the serious threat the U.S. would face if the USSR achieved significant superiority in military power (an acknowledgement that faces strong political resistance in the U.S.), the perceived well-being of the relevant political decision-makers in the U.S. (voters and political coalitions) would be little affected by the change in the relative military positions of the U.S. and the USSR. This suggests, then, the strong possibility that for all except the most blatant Soviet violations, the U.S. political process will not be moved to respond. Certainly this is consistent with the period of detente during the 1970s when the U.S. allowed the Soviet Union to develop superiority in the crucial areas of weaponry and military preparedness under the cover of arms control agreements.

The history of U.S. complacency, and the underlying weakness in the democratic process that explains it, has not been lost on the Soviet leadership. The Soviets surely see arms control negotiations as a means of increasing not the probability that they can prevent an arms race, but the probability that they can prevail in an arms race. There is a clear and present danger that arms control agreements will serve to mask Soviet designs for military superiority while providing a rationale within the U.S. for ignoring the unpleasant realities of international conflict and military competition.

Cause for caution

Military power is very much a private good to those who exercise political control in the USSR and, barring uncharacteristic renunciatory impulses on the part of those in command, there is no reason for expecting Soviet leaders to negotiate away this power so vital to their personal well-being. On the other hand, military power is best characterized as a public, or collective, good to the diverse political coalitions that shape political decisions in a democracy.

It is convenient to believe that military spending can yield to special interest spending without sacrificing national security if only arms negotiations are approached seriously. This convenient belief is based on the implicit, though completely unwarranted, assumption that the incentives to subordinate military spending to civilian consumption operate in the Soviet Union just as they do in the U.S., a social order based on democratic capitalism. This assumption, and the arms control hopes that rest upon it, is both a justification for, and an ostrich-like response to, the persistent tendency to let our military preparedness decline.

Given the less devastating military weaponry of the past, and the geographic isolation of the U.S., it was possible for the U.S. to slide into a state of military vulnerability and still have time to respond

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adequately, if belatedly, to a military threat. And indeed, this is exactly what the U.S. has done historically. For example, the U.S. approached World War II with a relatively small army, a prevailing mood of isolationism, and Roosevelt campaigning with a promise to keep America out of war. But unfortunately, isolationism and a casual attitude toward military preparedness are luxuries we can no longer afford. Current military technology has stripped the U.S. of the protection it once had by virtue of geography, and has made it highly unlikely that we can prevail in a major armed conflict unless fully prepared at the outset.

If the U.S. is to be fully prepared to protect its vital interests, it is necessary to face squarely the realities of the conflict we are in with the Soviet Union. At the very minimum this requires jettisoning the seductive notion that we can depend on the sincerity of the Soviets in arms negotiations because their economy performs so poorly.

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1. See Karen Elliot House and Walter S. Mossberg, "U.S. Sees Economic, Military Incentives Prompting Soviets to Accept Arms Treaty," the *Wall Street Journal*, June 29, 1982, p. 6.
2. Quoted in Harold W. Rood, *Kingdoms of the Blind: How the Great Democracies have Resumed the Follies that so Nearly Cost Them Their Life* (Durham, N.C.: Carolina Academic Press, 1980), p. 237.
3. Over the decade of the 1970s, the Soviet economy, measured on a per capita GNP basis, grew less rapidly than did the U.S. economy. This quite bad, considering the lackluster economic performance in the U.S. during that time and the fact that per capita GNP in the Soviet Union is only 45 percent of what it is in the U.S.
4. During the 1970s the military expenditures of the Soviet Union exceeded those of the U.S. not only as a percentage of GNP, but in absolute terms as well. According to the U.S. Arms Control and Disarmament Agency, over 14 percent of the Soviet GNP went to the military every year during the 1970s, while over the same period the military never consumed more than 6.2 percent of the American GNP.
5. It should be pointed out that this perception may be dangerously flawed. Assume, for example, that an agreement is reached between the Soviet Union and the U.S. to reduce nuclear missiles to some small number, say 100 each. If it is possible to hide a certain number of nuclear missiles, again assume 100, without the possibility of detection, the temptation for one side to cheat on the agreement would be heightened by the large relative increase in strength this cheating would generate. Furthermore, with the cheater having a two to one numerical advantage in missiles, the possibility of a successful first strike may become a temptation. Obviously, the smaller the number of "legal" missiles, the greater the probability a cheater can carry out a successful first strike. See Herman Kahn, *On Thermonuclear War*, 2nd edition (New York: The Free Press, 1969), p. 248.
6. See *Khrushchev Remembers: The Last Testament*, translated and edited by Strobe Talbott (Boston: Little, Brown and Company, 1974), pp. 459–460.
7. Dimitri K. Simes, "The New Soviet Challenge," *Foreign Policy* 55 (Summer 1984): 124.
8. Ibid.
9. Quoted in Joseph L. Nogee and Robert H. Donaldson, *Soviet Foreign Policy Since World War II* (New York: Pergamon Press, 1981), p. 149.
10. Interview in the *U.S. News & World Report*, May 16, 1977, p. 24.
11. See Robert Axelrod, *The Evolution of Cooperation* (New York: Basic Books, 1984), p. 132. By comparing the success of different strategies in a prisoner's dilemma setting, Axelrod concludes that the best strategy is "tit for tat," with the opening move being a cooperative one.
12. Appreciating the full force of this argument requires a consideration of the important political differences between the U.S. and the Soviet Union, to be discussed later.
13. See Friederich A. Hayek, "On the Use of Knowledge in Society," *American Economic Review* (September 1945): 519–30.
14. The impossibility of rational economic calculation under socialist planning was first put forth by Mises. See Ludwig von Mises, "Economic Calculation in the Socialist Commonwealth," in *Collectivist Economic Planning*, ed. F. A. Hayek (London: George Routledge and Sons, 1935) pp. 87–130. For an interesting and concise history of the literature that Mises' article spawned, see Karen I. Vaughn, "Economic Calcuation under Socialism: The Austrian Contribution," *Economic Inquiry* (October 1980): 535–54.
15. The Russian consumer would be in an even less enviable position if it were not for the Soviet underground economy that illegally produces a significant amount of

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Administration analysts do not anticipate Soviet moves in this area in the new round of talks. Rather, they expect Moscow to offer reductions of some kind in offensive forces and to use this as a wedge to gain Administration concessions on space systems.

Proposals on Strategic Weapons

In a second area of negotiations, Moscow is expected to reintroduce a proposal made two years ago to reduce the number of intercontinental-range missiles and bombers to 1,800, from about 2,500 on the Soviet side and about 2,200 on the American side. In addition, as Mr. Gorbachev said several weeks ago, Moscow could propose unspecified "radical" cuts from that level in the future.

The Russians could also propose a specific ceiling far below current levels on what they call "nuclear charges." This would include ballistic missile warheads, air-launched cruise missile warheads, bombs and air-launched short-range missile warheads. These now number about 12,000 for the United States and almost 10,000 for the Soviet Union.

Until now, Washington has refused to consider air-launched cruise missiles and ballistic missile warheads together. It could signal a willingness to do so now, but there is no indication that the Administration will go further and count bombs and short-range nuclear missiles in this total.

The Administration has also proposed a reduction in the number of intercontinental-range missiles on each side, to about 1,200. This level could be raised to bring it closer to Moscow's higher but unspecified level, and the time to reach this level could be extended from 5 to perhaps 10 years.

Mr. Reagan could also propose that Moscow be permitted a greater number of missiles while Washington retained a greater number of bombers and air-launched cruise missiles, as long as the overall total was the same for both sides.

The Administration has also insisted on equal levels of missile throw weight — the weight of warheads, guidance systems and other devices that a missile can lift toward a target. The Russians lead in this category by almost 3 to 1. But Washington might accept unequal levels as long as Moscow made substantial reductions in the number of its large missiles.

Medium-Range Forces

On the question of medium-range forces, Administration officials say it appears clear that Moscow has altered a key demand and no longer insists on the removal of 134 or so American medium-range missiles already deployed in Europe. In effect, Moscow has proposed a freeze at current levels.

This would leave the Soviet Union with about a 10-to-1 advantage over the United States in medium-range missile warheads. But this does not include French and British nuclear forces, which Moscow insists must be counted in a Western total; if they are included, the Soviet advantage is about 3 to 1.

The clearest indication of Soviet willingness to accept some American deployments came in a Pravda editorial last week. It read in part, "The Soviet side expressed its readiness, in case the U.S. missiles now being deployed in Western Europe are withdrawn," to reduce to levels equal to British and French forces. The phrase "in case" does not suggest that removal of all the missiles is required, as previous statements have insisted.

The United States says it wants an agreement allowing equal overall levels of Soviet and American medium-range missiles, but it says it would actually match Soviet deployments only in Europe, and not in Asia.

The present Geneva round is scheduled to end July 16. The first round began in March and ended in April. Until then, there had been a 15-month hiatus in the arms talks after a Soviet walkout over the deployment of new American missiles in Europe.

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consumer goods. See Konstantin Simis, *USSR: the Corrupt Society—The Secret World of Soviet Capitalism* (New York: Simon and Schuster, 1982). Also see Gregory Grossman, "The Second Economy of the USSR," *Problems of Communism* (September-October 1977): 25-40.

16. According to John H. Moore, "it should be realized that the [Soviet] planning system is an instrument used to promote the ends of the leadership, a tool whose use is the reward for the successful politician. It will be used to promote the ends that those at the top deem important." John H. Moore, "Agency Costs, Technological Change, and Soviet Central Planning," *Journal of Law and Economics* (October 1981): 189–214.
17. In this regard, Joseph S. Berliner distinguishes between mission-oriented activity and economic activity and argues that the Soviet success in the former provides no evidence that it can be expected in the latter. See Joseph S. Berliner, *The Innovative Decision in Soviet Industry* (Cambridge, Mass.: The MIT Press, 1976), pp. 505–510.
18. Which is likely to be the case, since the efficiency of the military sector in any country will be somewhat dependent on the overall efficiency of the economy.
19. According to Richard Perle, Assistant to Secretary of Defense Caspar Weinberger, "I expect [arms control] to do in the future what it has done in the past. I am pessimistic because the Soviets have shown virtually no interest in significant reductions. And that is because the one area in which they excel is in the production of weapons." *Newsweek*, October 1, 1984, p. 30.
20. *Statistical Abstract of U.S.*, U.S. Department of Commerce Bureau of Census, 104th edition, 1984, table 551, p. 343.
21. Richard Nixon, *Real Peace* (Boston: Little, Brown and Company, 1984), p. 96.
22. See Seymour Weiss, "Mr. Nixon's Chimerical Detente," *Wall Street Journal*, June 4, 1984, editorial page.

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