

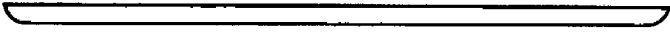
~~Secret~~



25X1



50-52 EXTRAS/CB



Gorbachev's Economic Programs: The Challenges Ahead



25X1

National Intelligence Estimate

Key Judgments

*These Key Judgments represent the views
of the Director of Central Intelligence
with the advice and assistance of the
US Intelligence Community.*

MASTER FILE COPY
DO NOT GIVE OUT
OR MARK ON

~~Secret~~

NIE 11-23-88W
December 1988

Copy 52

The following intelligence organizations participated in the preparation of these Key Judgments:

- The Central Intelligence Agency
- The Defense Intelligence Agency
- The National Security Agency
- The Bureau of Intelligence and Research, Department of State
- The Office of Intelligence Support, Department of the Treasury

also participating:

- The Deputy Chief of Staff for Intelligence, Department of the Army
- The Director of Naval Intelligence, Department of the Navy
- The Assistant Chief of Staff, Intelligence, Department of the Air Force
- The Office of the Deputy Assistant Secretary for Intelligence, Department of Energy

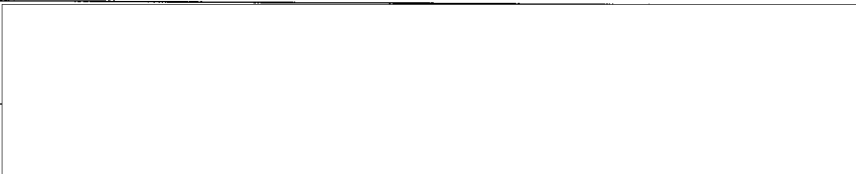
The National Foreign Intelligence Board concurs, except as noted in the text.

The full text of this National Intelligence Estimate is being published separately with regular distribution.

Warning Notice Intelligence Sources or Methods Involved (WNINTEL)

National Security Information Unauthorized Disclosure Subject to Criminal Sanctions

Dissemination Control Abbreviations	NOFORN (NF)	Not releasable to foreign nationals
	NOCONTRACT (NC)	Not releasable to contractors or contractor/consultants
	PROPIN (PR)	Caution—proprietary information involved
	ORCON (OC)	Dissemination and extraction of information controlled by originator
	REL...	This information has been authorized for release to...
	WN	WNINTEL—Intelligence sources or methods involved



STAT

Secret

25X1

Key Judgments

We believe that Gorbachev's efforts at reviving the Soviet economy will produce no substantial improvement over the next five years, although his efforts to raise consumer welfare could achieve some modest results. Soviet attempts to raise technology levels will not narrow the gap with the West in most sectors during the remainder of this century.¹ [redacted]

25X1

Gorbachev's economic program has so far failed consumers, who, according to anecdotal evidence, are probably somewhat worse off now than they were when Gorbachev assumed power in 1985. To improve consumer welfare, Gorbachev has begun to place more emphasis on housing, food processing, and light industry; and the defense industry is being told to increase its production for consumers. Gorbachev has also sought to expand the private and cooperative sectors through long-term leasing arrangements in both agriculture and industry. These initiatives are the ones that are most likely to improve the quality of life in the Soviet Union over the next five years. [redacted]

25X1

Gorbachev's effort to reform the country's system of planning and management and to improve the country's capital stock is going poorly. Ill-defined reform legislation, interference by ministries, and piecemeal implementation are creating disruptions and preventing progress. Reforms already planned in the state sector will probably be implemented slowly. Sharp moves toward a market economy would be very disruptive and would jeopardize popular support for his programs. Nevertheless, Gorbachev has often dealt with setbacks by adopting radical measures, and we cannot rule out an effort to move rapidly toward a market economy in the state sector. [redacted]

25X1

To promote growth of private enterprise, Moscow must allow more flexibility and reliance on the market for leasing and cooperative arrangements in order to increase significantly the production of goods and services for consumers. A resentful public and skeptical bureaucracy will make this difficult. Lease contracting in agriculture will remain bound by centrally directed procurement targets, reliance on state supplies, and a

¹ *The Director, Defense Intelligence Agency, believes that this uneven performance could include sufficient improvement in the Soviets' economic and technical base to facilitate fulfillment of future military requirements. Moreover, since the Soviets already lead in several key defense technologies, they should be able to continue assimilating technology gains in this sector.* [redacted]

25X1

Secret

recalcitrant bureaucracy. The comparatively high prices of privately supplied goods will spur inflation. An added problem for Moscow is that these reforms probably will be most successful, at least initially, in non-Russian areas such as the Baltic states and the Caucasus. [redacted]

25X1

We do not foresee a large, sustained increase in Soviet imports from the West. The Soviets may increase borrowing to perhaps \$3-4 billion net per year over the next few years. Even a much larger surge in borrowing from the West, which we think is very unlikely, would not aid the overall economy substantially or ameliorate the resource competition between the military and civilian sectors. A few industries may benefit, however. [redacted]

25X1

We judge Gorbachev will divert additional resources from defense—including managers, equipment designers, investment funds, and plant capacity—to his civilian programs. While we recognize there is some redundant plant capacity, significant increases in the production of goods for the civilian sector would require a diversion of resources from the military. Diversion from defense to civilian objectives will escalate conflicts over resource allocation because it could delay upgrades to weapons plants, thereby postponing the introduction of new systems. Clearly there are strong economic pressures for major reductions in military spending. Striking the right balance will involve many leadership arguments and decisions over the entire period of this Estimate. In any case, the large-scale modernization of Soviet defense industries in the 1970s has already put in place most of the equipment needed to produce weapon systems scheduled for deployment through the early 1990s.² [redacted]

25X1

Moscow will press harder on Eastern Europe for more and higher quality machinery and consumer goods, for greater participation in joint projects, and for greater contributions to Warsaw Pact defense. Such demands will produce only marginal benefits for the USSR because of real economic constraints in Eastern Europe and the reluctance of its regimes to help the Soviets. [redacted]

25X1

There is some chance that Gorbachev's economic programs may not survive. Disruptions, such as widespread reform-related work stoppages or a drastic drop in performance indicators, might strengthen conservative opposition. Such trends, coupled with continuing nationality turmoil, could force the leadership into a major retreat. [redacted]

25X1

² *The Director, Defense Intelligence Agency, holds an alternative view that a critical distinction must be made between near-term resource allocation trade-offs that can be made without significantly disrupting current defense procurement, and those of the longer term where a downward turn in defense spending trends may result in reordering or stretching out of weapons procurement.* [redacted]

25X1

Secret

Secret

Given the severity of Soviet economic problems, Gorbachev needs the many benefits of a nonconfrontational international environment. This gives the United States and its allies considerable leverage in bargaining with the Soviets over the terms of that environment on some security issues such as regional conflicts and arms control and on some internal matters such as human rights and information exchange. The margins of this leverage will be set by Moscow's determination not to let the West affect the fundamental nature of the Soviet system or its superpower status.³

[REDACTED]

25X1

³ For a fuller discussion of these issues, see SNIE 11-16-88, *Soviet Policy During the Next Phase of Arms Control in Europe*, November 1988; NIE 11-3/8-88, *Soviet Forces and Capabilities for Strategic Nuclear Conflict Through the Late 1990s (Volume I)*, December 1988; and the forthcoming Estimates NIE 11-14-88, *Trends and Developments in Warsaw Pact Theater Forces and Doctrine, 1988-2007*; and NIE 11-4-89, *Soviet Strategy Toward the West: The Gorbachev Challenge*. [REDACTED]

25X1

Secret

Page Denied