

DRAFT

**The Atlantic Council
of the United States**
and the
**International Economic
Studies Institute**

**Occasional
Paper**

**Western and Eastern Economic
Constraints on Defense**

The Mutual Security Implications

by

Timothy W. Stanley

with an Appendix on:

Soviet Economic Constraints to Year 2000

by **John P. Hardt**

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The overall program will seek, through factual rather than ideological analysis, to correct some of the widespread public misimpressions, including government, Congress, academia and the media, about the seriousness of U.S. international economic problems. The final result will be a book published early in 1988 which will integrate these interrelated topics.

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**WESTERN AND EASTERN ECONOMIC
CONSTRAINTS ON DEFENSE
THE MUTUAL SECURITY IMPLICATIONS**

by
Timothy W. Stanley

With an Appendix,
"Soviet Economic Constraints to the Year 2000"
by John P. Hardt

Washington, DC
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and the International Economic Studies Institute*

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**Western and Eastern Economic Constraints on Defense:
The Mutual Security Implications**
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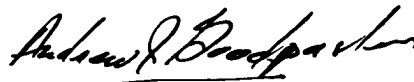
PREFACE

This paper, "Western and Eastern Economic Constraints on Defense: The Mutual Security Implications" by Timothy W. Stanley, and its Appendix, "Soviet Economic Constraints on Defense to Year 2000" by John P. Hardt, grew out of the Atlantic Council's ongoing Policy Projects on "U.S. Policy toward the Soviet Union: A Long-Term Western Perspective, 1985-2000" which I chair jointly with Walter J. Stoessel, and "Defending Peace and Freedom: Toward Strategic Security in the Year 2000", under the co-chairmanship of Brent Scowcroft and R. James Woolsey. The two policy projects are an integral part of the Council's overall National Security Policy Program. The two Working Groups are nearing completion of their work, and anticipate publishing Policy Papers in early 1987. Because of the substantive merit of this working paper, and the timeliness of the issues raised, both Working Groups recommended it be published immediately as part of the Council's *Occasional Papers* series, conjointly with the International Economic Studies Institute.

The *Occasional Papers* are offered as timely complements to the *Policy Papers* and scholarly books published by the Atlantic Council as a result of its policy working groups. Unlike the *Policy Papers*, which reflect the collegial views and recommendations of specific working groups, the views expressed in the *Occasional Papers* remain the sole responsibility of the individual authors. Like the *Policy Papers*, the purpose of the *Occasional Papers* is to enhance public discussion and debate of the most important international issues.

Over the last several years, it has become strikingly apparent to us, and to the elected and appointed officials, military and civilian policymakers and policy planners, businessmen, and academicians who have worked with us, that there exists a high degree of interdependence among the military, societal, and economic components of national security, and that these three aspects have traditionally been treated independently of each other, too often as if in competition with each other. There is a need for a sustained and comprehensive examination of the interrelationships among our military security requirements and our economic security and our socio-political well-being. We urgently need practical means of replacing policy isolation, competition, and conflict with policy coordination. As a step toward meeting that need, the Council has undertaken a new program on "Integrating Economic Policy and Security Policy." This paper represents the first substantive contribution to that effort. In that light, we are particularly pleased to publish this draft jointly with the International Economic Studies Institute, which is collaborating with us on the new program.

The Atlantic Council expresses its continuing gratitude to those contributors whose financial support has made the National Security Policy Program possible. The Program was initiated with the support of a major challenge grant from the J. Howard Pew Freedom Trust, and matching grants from the McDonnell Douglas Foundation, Exxon Corporation, Exxon Education Foundation, the Texas Association of the Atlantic Council, the International Economic Studies Institute, and the Greve Foundation.



Andrew J. Goodpaster
Chairman
Atlantic Council of the United States

FOREWORD AND OVERVIEW

Much has been and is being written about U.S.-Soviet relations and arms control; and also about U.S. and world economic problems. What is relatively unique about this joint *Occasional Paper* is that it attempts to assess some of the interactions between defense (and arms control) and economics.

The Atlantic Council has in progress two nearly completed policy papers drawing upon the deliberations of two expert and broadly based working groups, as noted in the preface. The Council leadership, including most of the co-chairmen and rapporteurs of the two groups as well as the author of this *Occasional Paper*, held consultations with NATO Parliamentarians, i.e., MP's from various European allies, in Luxembourg in late May of this year, which were followed by discussions in Moscow with leaders from the Institute of USA and Canada Studies, the Foreign and Defense Ministries and the Central Committee of the Communist Party.

Originally commissioned as working papers for those two Council groups, the combined efforts of Dr. Stanley and Dr. Hardt seemed so timely to current developments in East-West relations that it was deemed a useful public service to make them available in this form. Ultimately, it is hoped, these preliminary analyses will become the basis for further Atlantic Council Policy Papers under the aegis of a Standing Committee on Economic Policy which will guide ongoing work on integrating economic policy and security policy in the light of future international developments.

The International Economic Studies Institute, together with the International Economic Policy Association, with which it is affiliated, has published many analyses over the years of U.S. and foreign economic problems and policy issues, particularly as they relate to U.S. business and its competitiveness. In addition the Institute has done considerable analysis of the interactions between international economics and national security. More and more, the impact of U.S. budgetary and balance of payments deficits upon national security, and vice-versa, is coming to the fore. The Institute therefore is pleased to collaborate with the Atlantic Council in addressing these interactions, in this *Occasional Paper*, and in ongoing work.

The basic thesis presented here is that, although U.S.-Soviet relations seem destined to consist of a mixture of competition and cooperation, and neither side will, for economic reasons alone, adopt policies or military postures which it sees as harming its national security interests, the economic constraints now operating on *both* sides may create genuine windows of opportunity, through added incentives to reach otherwise desirable (and verifiable) arms control regimes. These could not only lower the risks of major conflict but also the defense burden for both, and for their respective NATO and Warsaw Pact allies.

With regard to the United States, Dr. Stanley's analysis finds that under the most likely long term economic growth scenarios and the most realistic assessment of congressional willingness to fund current defense priorities, the country is *unlikely* to reach the ambitious strategic and force goals set by the Administration. If so, the United States will have to choose between either undesirable or unworkable economic policies, and major re-thinking and restructuring of its basic strategy and force posture for the future, preferably in combination with major new East-West arms control possibilities. Similar adjustments may be needed in NATO.

On the Soviet side, Dr. Hardt documents the analogous constraints and dilemmas facing General Secretary Gorbachev and his colleagues, although they take

the form of allocation of real resources rather than budgets. Options include a possible shift to a pragmatic, reduced defense burden approach. This would have to encompass updated assessments of the international environment facing the Soviet Union, greater political leadership over defense requirements and programming, and economic constraints on defense stemming from the high priority being given to modernizing the civilian economy.

Dr. Stanley concludes that if either side sees the other's constraints as a potential vulnerability to be exploited, i.e. in zero-sum terms, a goal of mutual and stable security by the year 2000 may be even more elusive. But if both perceive their common problems as opportunities, in a positive sum context, then much could be accomplished at the planned U.S.-Soviet Summit and in subsequent negotiations.

As emphasized in the preface, the views contained in *Occasional Papers* are those of the authors alone, and do not necessarily reflect the collegial views of the Atlantic Council, its working groups, or those of the International Economic Studies Institute as an organization.

Nevertheless, we consider that the concepts and data in this paper are sufficiently constructive, thought-provoking, and timely that we are pleased to publish them jointly now.



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Western and Eastern Economic Constraints on Defense: the Mutual Security Implications*

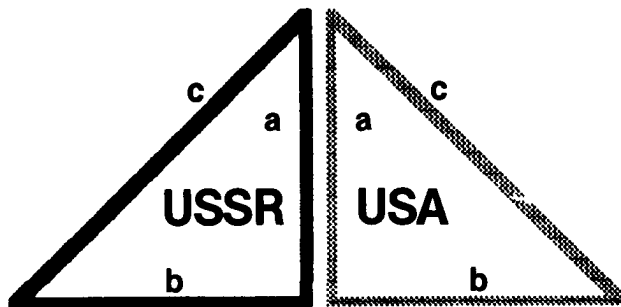
by
Timothy W. Stanley
President, International Economic Studies Institute

I. Introduction

This paper concentrates on the period between now and the year 2000, although more immediate economic and budgetary crises, including the effects of the Gramm-Rudman-Hollings (GRH) legislation, are also considered. It deals primarily with the United States and the Soviet Union and features an analysis of the situation in the USSR contributed by Congressional Research Service Sovietologist John Hardt. (See Section IV and the Appendix.) To a limited extent the analysis also touches the analogous problems of key allies of the superpowers in NATO and the Warsaw Pact.

Relations among three separate but interacting variables complicate the search for strategic stability and affect U.S.-Soviet relations as they influence mutual threat perceptions and the economic consequences of the armaments programs of both sides.

One useful, if admittedly simplified way of illustrating these relationships is shown in the two back-to-back right triangles diagrammed below. Side *a*, the altitude, is composed of the mutual threat perceptions, taking the "threat" as military capabilities discounted by intentions, which dominate U.S.-Soviet and, to a lesser extent, NATO-Warsaw Pact relations. The base of the triangle (*b*) represents the armaments programs in part generated by these mutual threat



*The writer wishes to express his appreciation for the helpful comments made by members of the Atlantic Council's Strategic Stability and U.S.-Soviet Relations working groups during his presentations to these groups in the spring of 1986. The paper also draws upon consultations held by an Atlantic Council delegation which met with NATO parliamentarians in Luxembourg on May 25-27, and discussions held with senior Soviet officials in Moscow on May 28-June 1, 1986, as well as upon insights gained at a U.N. conference of experts from East and West in Italy in April 1986.

perceptions and includes the arms control desiderata resulting from the vulnerability of both sides to technologically sophisticated nuclear and conventional weapons of great power, including potential applications in space.

The hypotenuse of the triangle (c) represents the economic costs and consequences and potential economic constraints of both sides' national security programs. The drawing is intended to be illustrative of the elementary principle that strategy (or threat evaluation and response) military programs, and defense budgets (and their limitations) are all interrelated. No quantitative comparisons are intended.

Every math student knows that the square of the hypotenuse is equal to the sum of the squares of the other two sides, represented by the formula $a^2 + b^2 = c^2$. However, in the world of politics these relationships may or may not apply. Three basic viewpoints were expressed during the discussions of the Atlantic Council Working Groups on U.S.-Soviet Relations and Strategic Stability.

One view takes the "a", or perceptions of threat to national security as a given; it in turn drives the related armaments programs, limited only by arms control imperatives and possibilities. The hypotenuse is then treated simply as a derivative, representing economic consequences which must simply be accepted, given the high priority both superpowers and their major allies assign to national security as they perceive it.

According to a second view, the mere existence of large military establishments, bureaucracies and interlocking industrial relationships generates its own momentum in the arms race. Thus, quite frequently, the "threat" is cut to fit the desired pattern of the military-industrial complex. Scholars of Soviet affairs note that while economic incentives and constraints may play a somewhat smaller role in the USSR than in the West, the bureaucratic and political power, as well as allocation priorities determined by the armaments elements of Soviet society are of great importance. They reinforce the ideological "threat" from the West, at once stimulating the military capabilities that the West has developed in response, and justifying still larger Soviet bloc efforts. This interaction may be particularly relevant during the current subterranean struggles as General Secretary Gorbachev seeks to consolidate power and impose his priorities on the Soviet bureaucracy.

A third view is that under present political-economic conditions, the economic hypotenuse of the triangle is becoming an independent variable, which at any shorter length, will alter the dimensions of the altitude and the base of the triad for both the Western and Eastern alliance systems. This paper will explore the ramifications of this third viewpoint.

II. THE UNITED STATES

The United States has recently undergone the largest ever peacetime buildup and modernization of its defense establishment, initiated in President Carter's last year of office following the Soviet invasion of Afghanistan, and continued and expanded under President Reagan.

In part this development reflects a perceived lag in the U.S. strategic posture vis-a-vis that of the Soviet Union, which continued its own long-term buildup even while the U.S. had unilaterally capped its strategic offensive forces in quantity, if not quality. Moreover, U.S. modernization and readiness were lagging.

It also reflects a disillusionment with the progress and prospects for arms control. Some, including former arms limitation advocates, maintained that the actual effects have been at best neutral, if not indeed harmful, in ratifying (and thus encouraging) ever more and better nuclear weaponry on both sides. Arms control opponents claimed that the process has failed to impede Soviet efforts to gain superiority even as it hindered U.S. efforts to redress a deteriorating military balance.

Also involved, of course, are the Reagan Administration's political-ideological campaign to shrink the role of civilian government activities, its staunch anti-communist, anti-Soviet outlook (though its more extreme rhetoric has now been muted) and its conviction of the need for expanded defense efforts to catch up to a perceived higher level of threat from the Soviet bloc.

Under the Reagan Administration, from FY 1981 through 1991 as projected by OMB, there will have been no real increase in *non*defense government spending because both the FY '81 and '91 figures are \$555 billion in constant FY '82 dollars). But there will have been a 60 percent real increase in defense, which will have grown from 23 percent to 33 percent of total government (including off-budget items) outlays, while nondefense will have fallen from 77 percent to 67 percent. Congress, of course, may or may not act accordingly.

The point of this paper is not to agree or disagree with these viewpoints, but rather to explore their ramifications in defense economics.

Tables I and II at the end of the text take the Administration's own figures—*before* mandated Gramm-Rudman-Hollings (GRH) cuts—and compare them with alternative U.S. economic growth paths and percentages of GNP allocated to defense.

Table I (in constant 1982 dollars, which factors out inflation) uses as growth alternatives ranges of 4 to 5, 2 to 3, and 1 to 2 percent, which are averaged to 4.5 percent, 2.5 percent and 1.5 percent real annual increases in GNP, respectively. It then applies defense percentages of GNP of 5 and 6 percent to each. Since 1970, except during the Vietnam War, the U.S. GNP share for defense has been either 5 or 6 percent—the latter primarily during the Reagan Administration buildup, which OMB projects to continue through 1991, as does the Pentagon.

It should be noted that the table lists or projects actual outlays, as opposed to appropriations or new obligational authority.

The actual and projected calendar year 1985-91 defense expenditures in Table I exceed even six percent of real GNP for all years but one, except under a very high growth scenario of 4.5 percent, which practically no independent forecaster would predict today.¹

¹Early hopes that lower energy costs and interest rates would stimulate growth at such higher rates have yet to be realized due in part to badly damaged sectors of the U.S. economy such as agriculture, mining, oil and energy and basic manufacturing, and in part to major losses of market share through massive trade deficits during the high dollar era.

The gaps between the resources thus projected and the stated requirements do appear manageable under the six percent alternative, on the 2.5 percent growth assumption, which appears to reflect current mainstream thinking in the economic community. However, over time it may be more realistic to expect the defense share to run closer to 5 percent of GNP, owing largely to congressional sentiment for deeper defense cuts, the intractable government budget deficit, and the deficit-related GRH mandate, which is complicated for the moment by the Supreme Court ruling on the role of the Comptroller General in the automatic enforcement provisions of the law.

Table I suggests that the gaps will not be manageable (under the medium growth, 5 percent of GNP, scenario) and could average over \$50 billion in *annual* shortfall (in constant 1982 dollars) over the six calendar years from 1986-91.

Table II confirms this situation and magnifies it as stated in current dollars, assuming a nominal 6 percent growth in GNP—for example 2.5 percent growth and 3.5 percent inflation—where the gaps might average \$98 billion per year from FY 87 to FY 91 under a 5 percent of GNP assumption and nearly \$47 billion per year even under the 6 percent assumption.

It is not possible at this writing to factor in the impact of GRH on this picture, given the uncertainties of how both Congress and the Administration will finally respond to the Supreme Court decision. But assuming that the original GRH target of reducing the Federal deficit to \$144 billion in FY 1987 is met, the Congressional Budget Office has estimated that under across-the-board cuts, a 15-plus percent cut would have to be made in the Administration's FY 1987 defense budget proposal (not outlays) of \$320 billion and that such cuts would likely accelerate in future years.

This \$50 billion GRH cut, in addition to any shortfalls projected from the preceding analysis, looms large in a long-range defense program in which Stealth costs may be upward of \$80 billion; 100 new attack submarines could cost \$100 billion; and 5,000 army light combat helicopters might require around \$30 billion. Finally, \$20-30 billion would be needed for SDI's R&D phases alone, according to estimates published in Washington Post articles. (Total 10-year costs of a deployed population defense system have been projected as high as \$770 billion, with more limited, e.g. silo-type defense estimated at \$160 billion.²)

Shortfalls of such magnitudes would appear to require substantial strategic and program adjustments beyond the tighter management and procurement reforms recommended by the Packard Commission, important as these measures may be in their own right.

The conclusion, starkly stated, is that under the most realistic political assessment of congressional willingness to fund defense priorities³—and the most realistic economic scenarios, the U.S. cannot get from here to where the Administration wants to go in its national strategy and force posture.

If this conclusion proves correct, there are a number of possible lines of policy response:

(1) The government could simply ignore the budget deficit problem and let it grow as it will. Virtually all economists agree that this attitude could lead to disastrous consequences in the long run as inflation would rise, U.S. interest

²Various articles in *The Washington Post*, spring 1986; see, for example, March 22, 1986, p. A8. The SDI estimate is based on a study for the Johns Hopkins Foreign Policy Institute, reported in the *Post*, July 23, 1986, p. A12. The Pentagon disputes this or any other cost estimates at the present stage of research.

³As described in *The Secretary of Defense Annual Report to the Congress, FY 1987* (Washington: Department of Defense) 1986.

rates would go up sharply—in part to attract more of the foreign capital which is already financing over half of the deficit. The probable result would be domestic recession or a return to the stagflation of the seventies, even without the two crippling oil shocks that disrupted that decade.

(2) The Pentagon could try to muddle through, deferring some big ticket procurement, reprogramming, attempting to live off already appropriated but unspent funds, and hoping for the emergence of greater national consensus on the defense buildup and an economic growth path closer to the 4.5 percent upper range. Judging from past experience, this is the most likely bureaucratic response, since all the other alternatives are politically painful and bound to meet with objections.

(3) “National security” could be given enough priority to warrant major revenue increases, for example from income and income surtaxes, consumption taxes, oil import levies or energy or other user fees. This response seems out of tune with the current climate of “revenue neutral” tax reform, with the GRH mandate, and with the President’s firmly stated opposition to tax increases of any kind.

(4) The government’s nonmilitary expenditures could conceivably be trimmed even more, although many would argue that they have already been cut to the bone and major additional cuts would encounter fierce congressional opposition. In any case, what could be done in practice would seem far too little to meet defense gaps of the size outlined above.

(5) The entire U.S. approach to strategy and force posture could be revised. The challenge is awesome, to say the least, since among other things, it could reopen the bloody battles over roles and missions of the four services that raged in the late forties, call for assigning greater responsibility for European defense to the other NATO allies, essentially a burden-sharing issue; or require shifting to a reliance on mobilization as opposed to readiness. This last-mentioned adjustment would tacitly accept the risks inherent in reliance on political (as distinguished from strategic or tactical) warning, predicated on the assumption that signs of a more aggressive Soviet policy or buildup would become evident in time to employ mobilization⁴ and reserve force assets—and that the U.S. and its allies could muster the consensus and political will to do so. Major cutbacks in defense spending would also entail curtailments and cancellations of major weapons systems, each with its own constituency. It would take a large team of expert defense policy analysts many months to outline such structural alternatives and estimate their costs and risks, and no such effort will be attempted here.⁵

⁴There are, however, major questions about the adequacy of the U.S. mobilization base, as more and more capacity in certain vital but endangered industries, such as ferro-alloys, are driven offshore or out of business, leaving the U.S. dependent on foreign sources for important components and for strategic materials, many of which the U.S. has stockpiled, but now may sell off over time under the Administration’s July 1985 proposal. These questions will be addressed in a forthcoming IESI study.

⁵One such expert, however, has had the courage to tackle the challenge alone. In *A Reasonable Defense*, (Washington, The Brookings Institution, 1986), Professor William W. Kaufmann compares alternative U.S. force structures against major combat scenarios. The foreword by Brookings president MacLaury summarizes Kaufmann’s finding that “if U.S. forces could be coherently designed to address major U.S. vulnerabilities, they would not only outperform the currently programmed force, but would also save at least \$200 billion in outlays between fiscal 1986 and fiscal 1990.” (p. viii).

(6) The Administration could actively embrace, rather than struggle against, the possibility of major East-West arms control regimes in a way that could lead to significantly lower military requirements. But, it takes two to tango and past Soviet responses to unilateral U.S. restraints have not been encouraging. Either the Soviets have proceeded with their own buildup out of sheer bureaucratic momentum, or they have calculated that U.S. restraints reveal a weakness that could be exploited to shift the correlation of forces further in their favor.

Whether the present Soviet leaders, given their current problems at home, might respond with genuine mutuality will be explored later in this paper.

One must conclude, then, that the United States faces major, growing gaps between likely available resources for defense and the military requirements to be met.⁶ The problem is postponable for only a short time; and ignoring it will not make it go away. There is, to paraphrase Henry Kissinger, a "necessity for choice"; and any inability in the American polity to face and make such choices has grave implications for the country's future.

⁶Articles in the defense-oriented press have implied from time to time that even the spending *goals* of the Administration are inadequate to meet the actual requirements of its stated strategic objectives, a question which cannot be evaluated here; but if true, then the mismatch between funding and strategy becomes even more serious!

III. NATO EUROPE

Without in any way diminishing the overall importance of Canada to the alliance, that country's military contribution to the defense of Europe is relatively small and it has been reduced over the years. Italy, Iberia, and the defense forces of countries on the northern and southern flanks, while vital to the security of these regions, are less relevant to the center. This section, therefore, will concentrate primarily on Germany, France and the United Kingdom, along with the Benelux countries as a group.⁷

Both Britain and France have experienced, on a smaller scale, the superpowers' dilemma of how to maintain adequate conventional strength while modernizing and increasing the survivability of their strategic nuclear components. The choices made have ultimately favored the latter, at the expense of the former.

West Germany has pursued a restrictive monetary and fiscal policy, and evidently plans to continue this course, despite pleas from her allies, notably the United States, to shift to a more accommodative, lower-tax, growth-oriented approach in order to stimulate international trade. Thus real growth in the Federal Republic should average about 2.5 percent per annum for the next several years, and while defense will consume some 20 percent of total Federal spending, real annual growth in defense expenditure is likely to increase only by about one half of one percent, far below that of the economy as a whole. The German government's 1985 White Paper on defense states clearly that no substantial increases in defense are in sight, although an average expenditure of over 3 percent of GDP should continue. In addition, Germany is facing demographic problems which will, over time, shrink the available manpower pool for compulsory military service to a marginal level.

Britain is plagued with high and rising unemployment, despite substantially lowered inflation and a return to respectable real growth of about 2.5 percent. The Thatcher government's medium-term financial plan, with its tight fiscal and monetary policies, may generate tensions between defense programs and civilian public expenditures programs, especially as the sharp drop in world oil prices cuts into government revenues from North Sea oil. Following a few years of significant increases, mainly for nuclear modernization and the eventual replacement of Polaris submarine missiles, Britain's defense spending is likely to level off at or below inflation rates, i.e., with little or no real increases in the near term.

France is trying to adjust to an unprecedented "cohabitation" between a socialist President and a conservative Prime Minister and government, and the resulting strains will intensify as the next national elections approach in 1988. Both parties have been staunch in maintaining and improving France's independent nuclear deterrent, albeit at the expense of some other military programs; and France will likely continue to allocate about 4 percent of its GDP to a defense posture which, while increasingly coordinated with NATO, is not integrated

⁷In 1985, according to NATO data, the United States contributed nearly 75 percent of the total US\$358 billion defense spending by alliance members. Britain contributed 6.2 percent, France 5.4 percent, and Germany 5.3 percent. All the others together only add up to 7.7 percent of the total.

with it. As elsewhere in Europe, unemployment remains a significant problem, even with 2-3 percent real growth rates in the economy.⁸

Despite periodic crises as coalition governments are shuffled, both Belgium and the Netherlands have been able to allocate close to a 3 percent average of GDP for defense, even during disappointing economic performances. But the competition for resources for social welfare programs, especially those aimed at industrial restructuring and unemployment, will continue to limit defense expenditures to modest real annual increases at best.

Overall, NATO Europe's defense expenditures in constant prices have remained essentially flat over the years 1970-85, rising only slightly since the late seventies. And in current dollars (converted at current exchange rates)⁹ they have shown a slight downward trend since peaking in 1980.¹⁰ The best one can say, is that, absent some sharp upturn in threat perceptions, NATO Europe will barely hold its own, while the practically available resources will remain insufficient for highly ambitious conventional force improvement programs, let alone high-tech weaponry for some of the newer strategic concepts such as deep interdiction, air-land battle, and follow-on forces, or for strategic missile defense beyond limited R&D participation in SDI. This not-too-optimistic overview, reached independently by the writer in the course of economic surveys of Western Europe, is also confirmed by the International Institute for Strategic Studies reference to "the looming difficulties which will face NATO as its efforts to accelerate conventional defense improvements collide head-on with stringent resource constraints."¹¹

Certainly, there is no realistic prospect that Europe will fill the gap implied by the preceding analysis of the U.S. requirements versus resources. This fact may be increasingly relevant if the U.S. balance of payments deficit remains intractably high, possibly forcing curtailment of U.S. government foreign exchange expenditures for various purposes, including NATO defense. The effect would be a rerun of the problems experienced by the U.S. and NATO in the late sixties.

Finally European opinion will remain vulnerable to Soviet "peace" initiatives, especially if they appear to offer some real substance which might lower defense burdens and relieve some of Europe's internal political tensions. However, as outlined in a forthcoming Atlantic Council study, there are other approaches to burden-sharing in a broader alliance context that ought to be explored.¹²

It would seem, then, that NATO as a whole faces the same dilemma of how to use limited resources more effectively in the defense, against a backdrop of a continuing Warsaw Pact conventional superiority, nuclear parity, and escalating costs of "smart" and other military technologies.

⁸A national service requirement is traditional in most nations on the continent. The writer has tested informed opinion in several European countries about the possibility of supplementing the career and conscripted forces with a volunteer force designed to utilize the large pools of unemployed manpower by providing salary incentives for longer tours of service. These could be paid for, in part, by transferring equivalent resources from social welfare agencies to defense ministries. Despite some apparent advantages in utilizing the unemployed for national defense functions, the concept has been coolly received, to say the least, and often simply dismissed as impractical.

⁹This situation partially reflects the strength of the dollar against most foreign currencies, until recently.

¹⁰Source: NATO Press Release, December 1985.

¹¹The International Institute for Strategic Studies *Strategic Survey, 1985-86* (London: 1986), p. 92.

¹²See "Comprehensive Security: Balancing National Contributions to Western Well-Being" by Leonard L. Sullivan Jr. and Jack A. LeCuyer (forthcoming 1986).

Something therefore may have to give in the central region of NATO, whether planned resort to tactical nuclear weapons at an earlier than desirable stage of conflict; greater reliance on resources and mobilization potential at the expense of readiness, the use of heavier screening forces backed up by concentrations of mobile counterattack formations and defined strong points—at the expense of the “forward defense” which is politically vital to the West Germans; or bold new efforts on mutual force reductions and anti-surprise attack measures with the East.

Failing any of the alternatives, the alliance leaders may have to take draconian steps to *force* economies of scale by improving the division of labor in defense procurement, intensifying standardization and inter-operability, and constructing a better two-way procurement street across the Atlantic. Difficult as such steps may be politically, savings or effectiveness increases of up to 25 percent have been postulated by some experts.

Again, painful choices would be involved, and the instincts of NATO’s civilian and military bureaucracies would be to maintain the flexible response strategy in effect for twenty years, despite a diminishing “thin blue line”, making improvements at the margin when possible and in procurement when forced to do so. The point, of course, is that the U.S. and its allies must try to seek common solutions to shared problems, rather than unilateral ones.

IV. The Soviet Union and Warsaw Pact¹³

In March 1986 the CIA and DIA together submitted to the Joint Economic Committee of Congress a comprehensive report on "The Soviet Economy under a New Leader." Much has been written about that leader, General Secretary Mikhail Gorbachev, including the rapidity with which he has consolidated power, the concessions he may have made or will have to make to various power centers and factions, his assertiveness in establishing his agenda, with domestic economic reform at the top, during the 27th Party Congress and subsequently, and his supposed flexibility in dealing with the West. Less has been said, however, about the state of and prospects for the Soviet economy.

Gorbachev inherited an economy that was largely stagnant, with productivity declining as both investment and growth in the labor force tapered off. Energy and materials inputs reflected rising costs and the 1981-85 five year plan (FYP) was well below targets. One of the factors, other than general sluggishness, corruption and inefficiency, was the direct and indirect costs of the massive military buildup. That effort increased from roughly 12 percent of GNP in the seventies to about 16 percent in the early eighties. Moreover, the recent annual growth rate of that buildup has outstripped the growth of the economy, which averaged under 3 percent for the FYP just ended, in effect robbing the nonmilitary sector of vital inputs, although there is a complementarity between the military and civilian industrial complexes which must be taken into account.¹⁴

One must add to these factors the dramatic decline in world oil prices, especially when priced in cheaper dollars, which may lead to a \$5-7 billion loss in hard currency in 1986, as well as the \$2.8 billion estimated costs of the Chernobyl nuclear accident. It is clear as Gorbachev starts his effort to reform and modernize the Soviet economy, that he faces an uphill struggle and is unlikely to achieve his ambitious goals.¹⁵ His objectives envisage GNP growth of 3.5 percent a year for 1986-90, 5 percent from 1991-2000, with the agricultural target at 3 percent and industrial output at 4.5 percent, an increase of 150 percent in productivity by 2000, higher oil and gas production, and large order of magnitude increases in both the quantity and quality of consumer goods. Few Western observers believe such goals are attainable, at least without "unleashing" the economy in ways that could be dangerous ideologically and politically.

Dr. Hardt's analysis of the Gorbachev dilemma (Appendix) postulates three alternative scenarios:

- (1) The projection of past trends, with defense allocation characterized as incremental, ideological, and institutional;
- (2) A defense buildup in response to perceived foreign threats or opportunities, with defense allocations essentially unconstrained by civilian needs; and
- (3) A pragmatic approach, with reduced defense burdens and a reassessment of the world environment, strategy, forces and budgets. This would involve the triad of elements in the triangular analogy outlined in Section I.

It would appear to be in the West's interest to respond to current Soviet arms control initiatives in ways that would encourage the third scenario. If the Soviets

¹³Although this section draws heavily upon the analysis of "Soviet Economic Constraints on Defense to Year 2000" by John Hardt, which is incorporated into this paper as an appendix, the evaluations and comments are those of the writer.

¹⁴See IISS, *Military Balance, 1985-86*, pp. 17-18. This source, however, also underscores the many unresolved methodological problems in assessing Soviet military expenditures.

¹⁵See Appendix for details.

choose to face the hard choices, as Dr. Hardt points out, they will be faced less in the fiscal-budgetary terms which are the driving constraints in the West than in the difficult and costly allocation of specific physical resources and plant capacity, particularly machinery and procurement, manpower, and the ingredients of scientific development. Qualified R&D personnel will be in short supply, as will computer-literate workers and the owners of other high-tech skills. Moreover, the Soviet demographic problem is growing; most population increases are occurring in the non-Slavic and Central Asian regions to the point that the Great Russians may already be a minority in "Russia."

More detailed analysis can be found in the Appendix. It implies, however, that the West may have available both a carrot and a stick. To choose the latter, in which case the West would observe no arms control constraints and proceed to maximize its technological advantages, such as SDI and new subnuclear military potentials, would probably propel Gorbachev toward the second, or buildup scenario. He would then be forced to abandon his goals for the civilian economy, except for its spinoff benefits from military modernization. But this course would also intensify the West's own dilemma of resources versus requirements; and totalitarian states have an inherent advantage over democracies when it comes to enforced belt-tightening, even though the latter, as wealthier countries, may have more slack to take up. The political consequences of a renewed cold war and essentially unconstrained arms buildup on the chances for stable security by the year 2000 are also formidable, for a high threat perception and response by one side will almost inevitably produce a counter-response by the other.

The carrot on the other hand, could offer a lower threat perception, make possible clear constraints (if verifiable) on defense and especially strategic, deployments, and hence bring about the shorter economic hypotenuse suggested in Section I. This prospective easing of their guns vs. butter dilemma would encourage the Soviet leadership towards Scenario 3, the "pragmatic reassessment," which could prove mutually reinforcing in terms of East-West relations, and a favorable vector toward stable and mutual security as the century winds down.¹⁶

In purely military-economic terms, the Soviet Union's Warsaw Pact allies contribute less than 10 percent to the total Pact expenditures of approximately US\$275 billion.¹⁷ This contrasts with the more than 25 percent provided by the U.S. NATO allies. Nevertheless, their manpower, economic potential, and geographic location are of great strategic and political importance to the U.S.S.R. Because of the high degree of Pact military integration and to a lesser extent, economic integration under CMEA, we need not discuss the six non-Soviet Pact members individually, after noting that their national interests vary. (In MBFR negotiations, for example, East Germany hewed closely to the Soviet line; Poland made known its own interests in achieving a reduction of the Superpower (read Soviet) deployments in Europe and easing both the manpower and economic burdens of defense; and Rumania played its customary maverick role.)

For this discussion we can assume that the future options of the other Warsaw Pact countries are tied to those outlined above for the Soviet Union. But they display even greater tendencies to seek butter over guns in their economic

¹⁶For more details of this scenario—and its alternatives, see the writer's article on "Strategic Stability and Mutual Security in the Year 2000, Getting There From Here" in the U.N.'s *Disarmament* magazine (forthcoming) in a report on a U.N. meeting of experts in Erice, Italy, April 1986.

¹⁷As estimated and converted in the *IISS, Military Balance, 1985-86*, cited.

tradeoffs, for with spotty exceptions, the CMEA economic performance in recent years has been plagued by economic reversals and debt problems. Thus the Soviet Union can expect even less help from its Warsaw Pact allies which, as the Appendix points out, are a net cost to Moscow in both military and economic terms, than can the United States from its NATO allies. In neither case, however, can the superpower concerned look to its alliance system for significant relief from its own resource squeeze.

V. CONCLUSIONS

A medium-to-low threat perception on both sides coupled with medium-to-low economic growth rates, could reinforce other incentives toward arms control and even limited disarmament. But initially there will not likely be significant savings, since nuclear forces are a relatively small part of the whole, and for the United States, at least, achieving substantial budgetary savings would require cancellation of entire weapons programs, closing of installations, and large-scale reductions of personnel—which, however, could be accomplished on the military side by greater emphasis on reserves. There is always a high initial cost for such measures, which only pay for themselves over time. Some rough indications of current budget breakdowns by mission are contained in Table III.

It should be emphasized, however, that potential economic savings of whatever magnitude are not enough of a magnet to draw either superpower away from a course it considers essential for its major national security objectives. And their mutual relations will be characterized for the foreseeable future as a mixture of competitive and cooperative elements.

Even though it is unlikely that there will be a substantial detente dividend in an economic sense, the stresses and strains of coping with a growing divergence between defense requirements and resources on both sides, as a minimum, may create incentives to reduce the pressure by easing off on the requirements side, improving the climate for the third scenario for the USSR in Section IV and making way for a parallel reassessment for the United States and for NATO. Arms control negotiators are, by necessity negotiating about each other's intentions as well as capabilities.

Under any but the worst scenario, however, structural change will probably have to come to the Pentagon over time; but the real squeeze, one hopes, would come only after renewed arms control progress is on course and verifiable. As President Reagan stated in his February 26, 1986 address to the nation, perceptions of U.S. weakness or lack of will in defense can only weaken Soviet incentives for arms control concessions. The need for effective dialogue between East and West is thus apparent.

On the other hand, a high threat perception by either side would generally produce a reciprocal response by the other, leading to renewed tensions and higher defense requirements. The Soviet Union would find it easier to cope politically with such a development than would democracies, especially under low-growth assumptions. For the United States, this situation could mean a significant rise in the overall tax burden, unless we also postulate a long-term high growth scenario, which is without precedent in this country.

Burden-sharing may again become an issue within the alliance unless the U.S., European, and Japanese assessments of the threat are more nearly parallel than they have been traditionally. It is a common assumption that real threats to the peace are more likely to arise in the Third World than in Europe, and unless the other industrialized countries feel themselves directly at risk, this attitude could become divisive, endangering the cohesion of the alliance and impeding its approach to common problems of resource allocation.

As we look ahead to the year 2000, it appears that both East and West are likely to face an increasingly painful ends and means dilemma which is parallel in some respects, and asymmetrical in others. If each side sees the other's problem in a zero-sum game context as a weakness to be exploited, then little can be expected beyond continued mutual insecurity at mounting costs and consequences to the economies of all concerned. But if each side is prepared to look

at its strained "economic hypotenuse" in positive-sum terms, then perhaps improved mutual security may be obtainable at lower costs—and even more important, with lower risks of military conflict and escalation to thermonuclear disaster.

This is the crux of the issue facing both leaders. Some of President Reagan's advisers are urging that this is precisely the time to maximize the armaments squeeze on the Soviet Union, hoping thereby to intensify its economic crisis and force major concessions. The writer believes this misjudges the Soviet character, which has always responded negatively to perceptions of external pressure, and underestimates their ability to sustain a garrison state if necessary. Additional viewpoints by Soviet specialists are noted in the Appendix.

Conversely, advisors in Moscow undoubtedly point to the West's economic constraints as reasons why they should not pay any substantial price, in arms controls or other concessions, for the more tranquil external environment Gorbachev has said he needs in order to concentrate on domestic problems. This, too, seems to the writer to be a misjudgment of the Western resolve.

Nevertheless, by the end of the decade, the United States is probably going to have to choose between the difficult options outlined in Section II, specifically No. 5: major defense restructuring, which would be better done in conjunction with major arms control measures, not as ends in themselves, but as the other side of the overall security coin. And here, the Soviet dilemma is quite parallel, as suggested by new signs of greater civilian control over military spending and deployments, as in the Far East and Afghanistan.

The possibility of an East-West superpower summit meeting within the next six months offers the chance to explore and test whether a real window of opportunity for improved East-West relations is there to be opened, or whether it is only an illusion created by the so-called "Americanists" who now hold key positions in the Soviet foreign policy establishment, in order to affect western public opinion.

With both Secretary Gorbachev and President Reagan self-confident and relatively secure in the leadership of their respective constituencies, the time seems ripe for a real dialogue, with all of the cards on the table, about future East-West relations and arms control possibilities. Some general and positive guidelines from the top, for example about SDI limitations and strategic offensive cuts, would then enable the negotiators for both sides to seek real progress in their various fora.

TABLE I

**ESTIMATES OF REAL GNP GROWTH AND PROJECTED
DEFENSE SPENDING AS A PERCENTAGE OF GNP
(billions of 1982 dollars)**

	4.5% Real GNP	Percentage of GNP		2.5% Real GNP	Percentage of GNP		1.5% Real GNP	Percentage of GNP		Projected Total Outlays	Defense	Defense as a % of	
		5%	6%		5%	6%		5%	6%			Outlays	GNP
1985	3576	179	215	3576	179	215	3576	179	215	846	227	27	6
1986	3736	187	224	3665	183	220	3629	182	218	856	232	27	6
1987	3905	195	234	3757	188	225	3684	184	221	829	238	28	6
1988	4080	204	245	3850	193	231	3739	187	225	824	243	29	6
1989	4264	213	256	3947	197	237	3795	190	228	830	236	30	6
1990	4456	223	267	4045	202	243	3852	193	231	828	266	32	6
1991	4656	233	279	4147	207	249	3910	196	235	830	275	33	6
1992	4866	243	292	4250	213	255	3968	198	238				
1993	5085	254	305	4356	218	261	4028	201	242				
1994	5314	266	319	4465	223	268	4088	204	245				
1995	5553	278	333	4577	229	275	4150	208	249				
1996	5803	290	348	4691	235	282	4212	211	253				
1997	6064	303	364	4809	240	289	4275	214	257				
1998	6337	317	380	4929	247	296	4339	217	260				
1999	6622	331	397	5052	253	303	4404	220	264				
2000	6920	346	415	5178	259	311	4470	224	268				

TABLE I (continued)

**HISTORICAL AND PROJECTED DEFENSE
AND NON-DEFENSE OUTLAYS**
(billions of 1982 dollars. Numbers may not add up due to rounding)

	Total Outlays	Defense	Non-Defense	Percentage of GNP	
				For Total Outlays	For Defense
1971	509	203	307	38	8
1972	528	191	337	34	7
1973	528	175	352	31	6
1974	529	163	365	30	6
1975	586	160	426	26	6
1976	610	154	456	24	5
1977	623	154	468	24	5
1978	652	155	497	23	5
1979	660	159	501	23	5
1980	699	164	535	23	5
1981	727	171	553	23	5
1982	745	185	560	25	6
1983	777	201	576	26	6
1984	789	210	578	27	6
1985	846	227	619	27	6
1986	856	232	618	27	6
1987	829	238	592	28	6
1988	824	243	582	29	6
1989	830	256	574	30	6
1990	828	266	562	32	6
1991	830	275	555	33	6

Source: Office of Management and Budget, "Historic Tables: Budget of the U.S. Government,"
Table 6.1

TABLE II
ESTIMATES OF GNP GROWTH AND PROJECTED
DEFENSE SPENDING AS A PERCENTAGE OF GNP
(billions of current dollars)

FY	GNP estimates¹	% Nominal Growth of GNP	Defense Spending²	Defense Spending as % of GNP
1987	4,538.1	8.3	311.6	6.9
1988	4,902.9	8.0	332.4	6.8
1989	5,268.9	7.5	353.5	6.7
1990	5,623.4	6.7	374.7	6.7
1991	5,955.2	5.9	395.5	6.6

¹Office of Management and Budget, "Historic Tables: Budget of the U.S. Government," Table 6.2

²Department of Defense, "Annual Report to the Congress—Fiscal 1987, Executive Summary," Table 2

ESTIMATES OF 6% NOMINAL GNP GROWTH AND
PROJECTED DEFENSE SPENDING
(billions of current dollars)

FY	GNP Nominal Growth of 6%	Percentage of GNP		Defense Spending¹	Defense Department Projections minus Defense Spending as % of GNP	
		5%	6%		@5%	@6%
1987	4,538.1	226.9	272.3	311.6	84.7	39.3
1988	4,810.4	240.5	288.6	332.4	91.9	43.8
1989	5,099.0	255.0	305.9	353.5	98.5	47.6
1990	5,404.9	270.3	324.3	374.7	104.4	50.4
1991	5,729.2	286.5	343.8	395.5	109.0	51.7

¹Department of Defense, "Annual Report to the Congress—Fiscal 1987, Executive Summary," Table 2

**TABLE III
PROGRAM COSTS**

FY 1986

(Billions of dollars of budget authority)

Program	
Strategic forces	29.9
General purpose forces	132.1
Intelligence and communications	27.9
Airlift and sealift	8.0
National Guard and Reserve	16.9
Research and development	30.4
Central supply and maintenance	26.5
Training, medical and other general personnel activities	35.6
Administration and associated activities	5.9
Support of other nations	0.5
Total budget authority	313.7

Source: *Budget of the U.S. Government, FY 1986* and estimates of William W. Kaufmann in *A Reasonable Defense* (Washington: The Brookings Institution, 1986), Table 2.7. Kaufmann estimates total direct and indirect "strategic nuclear retaliation" costs at \$51.5 billion, theater nuclear retaliation at \$3.2 billion, and conventional defense of NATO Europe, excluding the Atlantic, as \$107.2 billion, *Ibid.*, Table 2-6.

APPENDIX

**SOVIET ECONOMIC CONSTRAINTS
ON DEFENSE TO YEAR 2000**

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**Personal views of the author, not necessarily those of the
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Defense Economics in Flux

The Soviet Union, like the United States, appears to be at a point of potential change in the priority and process for economic allocations to defense. While Gorbachev's focus on the revitalization and reform of the economy as the central task of the leadership for the rest of the century suggests that changes in methods of planning and management may occur throughout the economy, including defense support, the outcomes remain uncertain. In this context, we may see one of several different scenarios developing with respect to both the way economic decisions are made in the defense sector and the kind of decisions that result.

- (1) The first scenario consists of a projection of the past trends established under Brezhnev. In this case, a defense buildup may be supported in areas of competition with the United States and in areas of perceived opportunity even though requirements for improved economic performance could have a dampening effect on defense budgets. This *Past Projection scenario* also would seem to find the Soviet defense establishment continuing to dictate the progress of new programs within the policy framework of the defense philosophy of the past, i.e., responding to new technological developments in the West and servicing global commitments, while retaining capabilities for the defense of the homeland. Under this scenario, defense allocation decisionmaking might be described as incremental, ideological and institutional.

Under Brezhnev, military allocations were constrained by economic performance, but increased sufficiently to support a substantial military buildup, the policy basis of which was both ideological and pragmatically political. Constrained by civil needs and performance, defense allocations were *incremental*; although influenced by pragmatic, Great Power politics, the policy framework was dominated by *ideological* and *institutional* criteria. The Soviet Union may continue to increase its military expenditures in this way. With slowing overall growth, defense growth (measured in dollars) is estimated to have remained at a two percent rate from 1974-1985—half the rate of the previous decade. (Measured in rubles and assuming increasing cost of procurement, the slowdown would be somewhat less severe.) Even with slower overall growth in the economy, according to United States intelligence estimates the share of GNP allocated to defense increased from 13-14 percent of Soviet GNP in the early 1970s to 15-17 percent by the early 1980s; in dollar equivalents defense was \$146.2 billion in 1985. In this period, the qualitative inputs to the military balance from Soviet military procurement, manpower and R & D were sufficient to assure attainment of bi-polar parity.

- (2) Perceptions of threats or foreign opportunities may dictate an increase in the growth of allocations to defense. A breakdown in arms negotiations and a decision to confront the U.S., NATO, and other Western countries more aggressively might lead to an increase at least to the trend lines of the pre-1974 period that is, 4.5 percent growth per annum. In this *Defense Buildup scenario*, decision-making would be largely unconstrained by needs and performance of the civilian economy and would be largely ideologically and institutionally driven.

If the Soviet leadership decides to allocate more to defense in response to perceived opportunities or threats and if the economy grows as planned, the Soviets might be able and willing to devote twice the increase of resources to defense without materially changing the defense share of total output. The

defense procurement rate of the early Brezhnev period (1968-74) of 4-4.5 percent might return or be exceeded. However, assuming economic growth and constrained defense allocations are closely related, a high defense budget would probably have to be pursued at the expense of civilian programs and stepped-up performance. A resumed buildup of manpower, as occurred during the late Khrushchev period for manning the China border and replacing Czech forces in the Warsaw Pact, might not fully return but the pressure to reduce military manpower might be resisted. Military research and development would likely be increased, but how effective it would be in meeting the new technological challenges may be open to question.

- (3) A modified, restructured and lower defense claim on the economy might be an outgrowth of Gorbachev's new strategy. A greater emphasis on regional over global threat assessments, greater attention to the economic and political value of the tradeoffs to defense, and an increased Party involvement in military policy and defense planning could together lead to a *Reduced Defense Burden, Pragmatic scenario*. Such a scenario would be closer to the more pragmatic, politically oriented process of U.S. defense planning and more likely to produce a reduced economic burden. If some further restraint on defense were to derive from Gorbachev's priority to domestic investment and consumption and a perception of an environment conducive to arms negotiations, the defense share would likely fall.

The late 1980s and 1990s may be a period of change in the trend and level of growth of resources for defense in both the Soviet Union and the United States. Economic and political modernization, revitalization and reform are the central ingredients of the strategy of Gorbachev coming out of his first Party Congress—the 27th Congress of the CPSU in February-March 1986. With the possibility of restraints on defense budget growth deriving from budgetary constraints and the possibility of a process of arms control negotiations relating to bilateral Summits, the United States may share a prospective down-turn in defense priority and a reform in the administration of defense, at least in procurement.

Soviet change under the spirit of the Gorbachev strategy of the 27th Party Congress would move away from the past resource policy of *incremental* growth—an increasing share of absolute and relative goods and services devoted to defense; *ideological* threat assessment—balancing a global view of Moscow-centered Communism with a more pragmatic Great Power and regional perspective; *institutionalization* in defense planning and programming that relies less on the decisions generated by the military-industrial complex and rather more on the broader political view of the top Party. The ideological component would be less in enforcing a Suslov-Brezhnev type doctrine with the CMEA-Warsaw Pact and more in flexibility in dealing with Communist parties abroad as similar to other parties in non-Socialist countries.

The 'commanding heights' approach of politicalization takes power for policy and planning up from the Ministerial and regional party levels to the 'super' Ministries and Politburo and Secretariat of the Central Committee with skilled staff at the Secretariat level providing the administrative muscle for increased top Party control. Applied to the military bureaucracy, this would, by analogy, shift the policy decision-making and key information support and implementation up to the level of the Party Secretariat.

Let us explore these three scenarios in the context of the defense decision-making process with emphasis on the third: a scenario with constrained defense spending and restructured defense decision-making that moves toward the more pragmatic, politicized American model. Such a scenario may be considered most consistent with Gorbachev's rhetoric and his requirements: it would respond to the incremental burden of rising military costs, address the special requirements of space-age research and development, and support Gorbachev's commitment to improved economic performance.

I. Triad of Decision Making: Gorbachev's Movement Toward A Reduced Defense, Pragmatic Model.

Mikhail Gorbachev seems to be interested in changes in the triad of defense decision-making: a reassessment of the world environment or a revised threat assessment; a reevaluation of military programs and security strategies; and a consideration of military programs and budgets in the context of economic constraints or burden assessments. It remains a question, however, in just what sequence these changes may be considered, and whether the institutional imperatives of the defense establishment rather than threat or environment assessment still drive military programs.

But just as the leadership in the United States seems constrained by budgetary limitations that restrict military and domestic programs, the Soviet leadership may feel the burdens of budgetary limitations as the competitive claims of investment and consumption restrict their defense allocations [Gramm-Rudman in the USA; Gorbachev-Ryzhkov in the USSR]. The budgetary constraints may in turn lead to re-evaluation of the other aspects of decision-making.

A. International Environment Estimate. (Threat Assessment)

The assessments of the international security environment by the Party leadership and defense institutions are becoming global assessments of requirements based more on a pragmatic Great Power role rather than on ideological considerations as in the past. The appointment of Anatoly Dobrynin to the Secretariat of the Party, assuming the position occupied for years by Boris Ponomarev, presents some evidence of this shift from ideology toward pragmatism by focusing more foreign policy expertise and clout in the Party Secretariat. Power in foreign and security policy (arms negotiations) has shifted toward the Secretariat. Although the regional and global assessments that result may still be inimical to U.S. interests, they may nevertheless be more pragmatic. These threat assessments may thus be likened in Gorbachev's calculus to some political cost-effectiveness scale that would provide a basis for negotiation and for the limitation of military claims on resources.

B. Requirements Planning and Programming.

Military programs and security strategies that may have been driven in the past by bureaucratic pressure (from the Defense Council and the Ministry of Defense complex) may now be coming more under top leadership control. Moreover, the psychology of past defense orientation and post war experience may be giving way to a new generation's assessment based more on pragmatic Great Power politics.

Such trends in defense planning might be advanced if the Soviet leadership applies the same principle of economic reform to the defense economy that is being adopted in agriculture. In this case, it might centralize key policy analysis and decision-making for the defense establishment at top Party and government levels and decentralize management decisions. A national security unit created in the Party (such as the Economic Department in the Secretariat of the Central Committee) could take on a role similar to that of the National

Security Council in the United States with the Party Secretariat unit developing its own staff. A Party Politburo member such as Lev Zaikov, who currently holds the defense industry portfolio in the Politburo, might be Gorbachev's designated civilian security adviser, with the Defense Council taking on a role like that of the Joint Chiefs of Staff and with the new Party Secretariat security unit staff providing support for Zaikov. On the government side, the creation of a National Security Committee (such as Gosagroprom for agriculture) could provide Gorbachev and Ryzhkov a unit above the Ministry of Defense Industries that could coordinate and oversee both defense and civilian management.

C. Economic Constraints and Defense Burden.

New strains could be placed on defense spending under the pressures of Gorbachev's economic prescriptions: (1) his emphasis on energizing the economy and using the best cadres for civilian production enterprises; (2) the intensification of industry and agriculture requiring larger shares of growth for investment and consumption; (3) improvement in the scientific and research establishment to compete in the technological-information revolution. In each case, the deferral of military claims, an increase in the openness of the military production and research establishment, and the sharing of high quality military assets may be required to bring about improved economic performance.

The Gorbachev Five-Year (1986-1990) and Fifteen Year Plans (1986-2000) call for higher growth, improved capital efficiency, labor productivity and quality of output for which a dynamic and productive research and development environment is essential. The formula for reaching these economic goals, necessary for the political and military claimants alike, involves short term military sacrifices and change. Such changes could be necessary to attain an improved civilian technological-economic base that will allow for long-term civilian and military competitiveness (this could be called the larger thrust of SDI).

II. Gorbachev's Tradeoffs: Guns or Growth

Even more than budgetary pressures, limited physical resources and capacity may severely constrain growth of Soviet military allocations. Soviet leadership is not constrained by its state budget but by physical resource limitations. Moreover, the aggregate levels are not the burden, specific physical resource limitations present the tradeoff problems. The hard choices are to be found especially in procurement, manpower, and research and development:

Procurement—The incremental priority requirements of machinery for fulfilling Gorbachev's Five and Fifteen Year Plans of modernization squeeze incremental military procurement demands.

Manpower—The reduction in the available draft age, manpower cohort and the increasingly non-Slavic character of this cohort will make it difficult to maintain current military manpower levels without denying increments to the civilian labor force and without enhancement of the education of the cadre; there will be more competition for the limited number who are educated.

R & D—Future military and civilian needs in the age of SDI require opening, diversion or amalgamation of the priority military R & D establishment with the backward and less productive civilian scientific establishment.

A. Military-Civilian Tradeoffs: Procurement

To the extent the Soviets have difficulty finding the resources to simultaneously meet Gorbachev's industrial modernization goals and satisfy military requirements in the near term, a central problem of choice will arise in the machinery sector which traditionally has allocated a large portion of its output to the military.¹

As noted by U.S. intelligence assessments, the increased demands for resources needed for these programs will be centered around several areas:

- **Factory Capacity.** Implicit in Gorbachev's call for increased output of advanced machinery is the competition—in the absence of rapid plant expansion—for modern workspace at production facilities. In this connection, robots, computer-numerically-controlled machine tools, computer-aided design systems, flexible manufacturing systems, and other highly automated manufacturing systems are important for the production of both advanced manufacturing equipment needed for boosting industrial productivity and for producing sophisticated weapon systems.
- **Basic Materials.** Chemicals and metals are used in producing both weapons and advanced machinery. The ferrous metals ministry, for example, has failed to meet its targets for many types of steel in recent years.
- **Intermediate Products.** Engineering plastics, advanced composite materials, electronic components, and microprocessors are currently in high demand in the defense industry and, as modernization proceeds, will be needed increasingly by civil industry as well. These products, however, are in short supply.

¹The Soviet Economy Under a New Leader, A paper prepared jointly by the Central Intelligence Agency and the Defense Intelligence Agency submitted to the Subcommittee on Economic Resources, Competitiveness, and Security Economics of the Joint Economic Committee, U.S. Congress, March 19, 1986, 43 pages.

- **Labor.** Both the defense industry and modern civil industry require highly skilled workers, particularly computer technicians and software engineers.

The near-term competition for factory floorspace and investment goods has been mitigated by the substantial expansion and upgrading of defense-industrial plants over the past decade. Comprehensive programs to modernize many weapons production facilities began in the early 1970s. Efforts to modernize defense industry accelerated in the late 1970s, and we believe a large portion of the best domestically produced machinery was delivered to defense industry during this period. In addition, the defense sector was helped by a surge in clandestine and open acquisition of Western manufacturing equipment.²

In the short-run—into the early 1990s—competition for additional investment goods for new capacity will not, they argue, be critical, as the joint CIA-DIA assessment sees the investment crunch coming in the 1990s:

As a result of this investment in defense industry, almost all of the production capacity required to support Soviet force modernization over the next six years or so is already in place. Our calculations suggest that virtually no additional investment in the plant and equipment is needed to manufacture the military hardware that we believe will be in production in 1986-88 and that most of the capacity required to turn out the military equipment projected to be in production in the early 1990s is already available. Moreover, weapons development and industrial construction indicate that investment in defense industries will continue at a high level, adding new capacity with greater capabilities. Thus, military production would not be constrained in the near term by a reallocation of new fixed investment in favor of civilian machinery and other priority sectors.

Although the Soviets have the production capacity to maintain or even increase the current level of weapons production, competition for labor and material inputs used in the production process could force some trade-offs at the margin between military and civilian production. The nature of this competition is shown in the Figure, (p. 30)) which summarizes our judgments on (a) the degree of need for the particular resource in civilian machinery, (b) its availability in non-machinery sectors of the economy, and (c) how easy it would be to shift the resource from military defense industry to civilian machinery.

High-quality steel and energy, for example, will be in great demand to manufacture machines needed for both industrial modernization and weapons production. The high targets the Soviets have set for machinery production will place tremendous demands on the ferrous metals branch. This industry, however, has been doing poorly in recent years and apparently will receive little, if any, increase in investment during the 1986-90 FYP. Although there is likely to be some growth in the energy sector, the energy situation may be tight.

Others see the defense claims affecting economic performance in the current 1986-1990 Plan differently in terms of the timing of the difficult choices. Dr. Jan Vanous notes, "we found that the amount of machinery available for investment and defense use combined will not be adequate, at least in 1986, under any reasonable scenario to satisfy both domestic investment and defense needs. Moreover, *except in the case when the growth of domestic defense machinery production is slashed to 4% per year during 1986-90*, which is an extremely slow

²*Ibid.*, p. 21.

**TABLE 1—ESTIMATES AND PROJECTIONS OF THE NUMBER OF 18-YEAR OLD MALES IN THE U.S.S.R., R.S.F.S.R.,*
CENTRAL ASIA, KAZAKHSTAN, AND TRANSCAUCASUS, 1970-2000****
[In thousands, except percent]

Year	U.S.S.R.		R.S.F.S.R.		Central Asia and Kazakhstan		Central Asia, Kazakhstan and Transcaucasus		R.S.F.S.R. as a percent of U.S.S.R.		Central Asia and Kazakhstan		C. Asia Kazakhstan and Transcaucasus as a percent of R.S.F.S.R.	
	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%
1970	2,229	1,258	411	301	171	130	110	56.4	18.4	13.5	32.7			
1971	2,247	1,264	430	312	185	127	118	56.7	19.1	13.9	34.0			
1972	2,174	1,226	424	312	185	127	112	56.4	19.5	14.4	34.6			
1973	2,410	1,327	485	354	213	141	131	55.1	20.1	14.7	36.5			
1974	2,469	1,345	534	392	244	148	142	54.5	21.6	15.9	39.7			
1975	2,465	1,301	556	408	257	151	148	52.8	22.6	16.6	42.7			
1976	2,526	1,327	577	425	265	160	152	52.5	22.8	16.8	43.5			
1977	2,593	1,335	608	447	280	167	161	51.5	23.4	17.2	45.5			
1978	2,619	1,330	630	461	287	174	169	50.8	24.1	17.6	47.4			
1979	2,674	1,354	663	492	312	180	171	50.6	24.8	18.4	49.0			
1980	2,601	1,296	670	497	315	182	173	49.8	25.8	19.1	51.7			
1981	2,484	1,206	663	494	316	178	169	48.6	26.7	19.9	55.0			
1982	2,383	1,132	661	491	321	170	170	47.4	27.7	20.6	58.4			
1983	2,236	1,030	652	485	325	160	167	46.1	29.2	21.7	63.3			
1984	2,111	979	620	465	306	159	155	46.4	29.4	22.0	63.3			
1985	2,102	962	618	466	310	156	152	45.8	29.4	22.2	64.2			
1986	2,024	906	606	462	310	152	144	44.8	29.9	22.8	69.9			
1987	2,016	886	623	478	329	149	145	43.9	30.9	23.7	70.3			
1988	2,007	895	612	474	325	148	138	44.6	30.5	23.6	68.4			
1989	2,056	913	626	481	333	148	145	44.4	30.4	23.4	68.6			
1990	2,128	949	650	505	352	153	145	44.6	30.5	23.7	68.5			
1991	2,143	969	641	502	348	154	139	45.2	29.9	23.4	66.2			
1992	2,132	961	657	516	361	155	141	45.1	30.8	24.2	68.4			
1993	2,204	1,000	680	538	375	163	142	45.4	30.9	24.4	68.0			
1994	2,234	1,013	695	551	386	165	144	45.3	31.1	24.7	68.6			
1995	2,286	1,032	723	573	402	171	150	45.1	31.6	25.1	70.1			
1996	2,336	1,054	743	588	414	174	155	45.1	31.9	25.2	70.5			
1997	2,389	1,076	766	606	428	178	160	45.0	32.1	25.4	71.2			
1998	2,441	1,095	789	624	441	183	165	44.9	32.3	25.6	72.1			
1999	2,488	1,111	814	643	456	187	171	44.7	33.6	26.6	73.3			
2000	2,529	1,121	837	661	470	191	176	44.3	33.1	26.1	74.7			

Source: Unpublished estimates and projections prepared by the Foreign Demographic Analysis Division, U.S. Bureau of the Census, in March 1977.

*Russian Soviet Federated Socialist Republic

**Murray Feshbach, "Prospects for Ouirmigration in Central Asia and Kazakhstan in the Next Decade," Soviet Economy in A Time of Change, GPO: Washington, D.C. Joint Economic Committee, Volume 1 1979 p. 701.

growth rate by historical standards—the Soviets do not stand a reasonable chance of freeing enough machinery for investment purposes to achieve their ambitious investment and capital modernization target.”³

B. Military-Civilian Tradeoffs: Manpower.

Quantitatively hard choices will have to be made among allotments for the civilian labor force, the university student cadre and the military. The difficult decisions on qualitative allocations involve regional, ethnic, and educational limitations on quality and reliability of current draft age cohorts.

During the 1980s, the ‘second echo of World War II,’ is preventing the Soviet leadership from maintaining the military manpower level, while increasing the civilian labor force. (Table 1 left). As indicated by Dr. Murray Feshbach’s analysis of the Soviet census, the U.S.S.R. will not be able to keep up military force levels and expand the labor force at the same time until the 1990s. Thus, the short-term competition for human resources could be even more intense than for investment and material resources. Extensive underemployment exists in the Soviet economy, and Gorbachev may hope that he can support his modernization program by mobilizing currently underemployed engineers and labor. But shortages persist in the U.S.S.R. in several skill areas (as indicated in the Figure, next page). Critical to both defense and modernization, for example, are systems analysts, computer programmers and selected types of engineers and skilled machinists. Thus, the most likely immediate source of additional specialists for the civilian machine building metal working industry is a reallocation of the employees already working in the machinery sector through increased labor productivity.

Soviet additions to the military will be predominantly non-Slavic, especially youth from Central Asia and Kazakhstan. This change in the draft age, labor force pool adds a qualitative factor to the quantitative shortage. Rural Central Asians tend to be less skilled and educated, and many have limited Russian language facility.

C. Military-Civilian Tradeoffs: R&D

In the past, military R & D has received priority over civilian programs. Well funded and staffed, with supplementary inputs to its core military programs gained from effective foreign intelligence, the military R&D program has provided a basis for keeping up, closing the technical gaps in many traditional military areas, and moving ahead in some. In the 1990s, military and civilian technological needs alike will be met only if the Soviet scientific establishment can join the technical information revolution of the West. The research base required for the U.S. Strategic Defense Initiative [SDI] is an important factor in determining the range of likely needs for efficient and effective military and civilian establishments. The demands of new weapons development, the shift to an intensive economy and the greater emphasis on innovation, point to the need for reform in the Soviet approach to defense allocations. The continued

³Jan Vanous and Bryan Roberts, ‘Time to Choose between Tanks and Tractors: Why Gorbachev Must Come to the Negotiating Table or Face a Collapse of His Ambitious Modernization Program,’ *Plan Econ*, Inc., Volume II, June 27, 1986. [original underlined]

FIGURE
USSR: Military-Civil Competition for Resources*

Resource	Need in Civilian MBMW Sector for Modernization	Availability Outside of MBMW Sector	Transferability from Military to Civilian MBMW	Comment
Materials				
Basic/Raw:				
Energy	Medium	High	High	
Intermediate:				
Chemical feed stock	High	Medium	Med-High	
Engineering fibers	High	Low-Med	High	
Micro-electronics	High	Low	High	In very short supply in both sectors.
Specialty steel	Med-High	High	Med-High	
Aluminum	Med-High	High	High	
Titanium	Medium	Med-High	Medium	
Construction materials	Medium	High	High	
Intermediate Products				
Conventional:				
Electric motors	Med-High	Low	Med-High	
Diesel engines	Med-High	Low	Med-High	
Advanced:				
Engineering plastics	High	Low-Med	High	
Micro-processors	High	Low-Med	High	
Composites	Medium	Low-Med	Medium	
Micro-electronic components	High	Low	Medium	In short supply.
Manpower				
Skilled:				
Computer programmers	High	Low-Med	High	
Electronics technicians	High	Low-Med	High	
Software engineers	High	Low-Med	High	
Researchers	Med-High	Med-High	Medium	
Machinists	Medium	Low-Med	High	
Industrial engineers	Medium	Low-Med	High	
Unskilled:				
Laborers	Low-Med	High	High	Shortage exists throughout economy.

*Soviet Economy Under New Leadership, *op. cit.*, p. 22. MBMW is Machine Building Metal Working Industry.

decoupling of defense and civilian sectors of the economy deprives the total system of a stronger advanced technological base and reduces prospects for overall productivity increases.

The U.S. SDI program is organized in five specific research areas. These consist of Kinetic Energy Weapons Technologies (KEW); Directed Energy Weapons Technologies (DEW); Systems Analysis and Battle Management (SA/BM); Surveillance, Acquisition, Tracking and Kill Assessment (SATKA); and Survivability, Lethality and Key Technologies (SLKT). The scope of technologies embedded in the SDI symbolize the enormous difficulties inherent in preparing the Soviet military for the next century if the reforms in research and development now under consideration by Gorbachev are not implemented.⁴

Condoleeza Rice of Stanford University writes:

There are those in the Soviet military who are arguing that it is really in the area of new technologies, microelectronics, particle beam weapons, and artificial intelligence that there is a challenge from the West. These people may be willing to forego short-term acquisition in favor of research, development, and investment in militarily promising technologies. Their time horizon might not be the same as that of those who wish to invest in basic research and to divert funds from military research, but it could bring about a temporary bargain between those who seek investment in technology for civilian purposes and those who seek the same for military use. In the short-term, this could lead to a less intensive purchase of hardware and investment in future technologies. Then, should promised reform of the economy bring an end to the period of economic stringency, the Soviet military would be well prepared to acquire forces for the battlefield of the twenty-first century.⁵

The technologies under development to support the U.S. SDI are creating a pool of innovative concepts which will have potential applicability to the U.S. defense industry in strong interaction with the civilian sector. For example, Battle Management/Command, Control and Communications requires the development of computer hardware and software on an unprecedented scale. KEW systems require research on microelectronic controls, advanced infrared and radar sensors, compact chemical propulsion devices, and electro-magnetic launchers which could lead to advanced anti-tactical weapons and propulsion systems. DEW creates a focal point for laser research, particle beam concepts, and large space structures. Systems analysis involves studies of large space transportation systems paving the way for space exploration in the 21st century. Finally, SDI countermeasure studies are evaluating the vulnerability of defense systems to possible offensive responses which could drive improvements in technologies such as nuclear radiation hardened electronic means to counter a Soviet maneuvering missile threat.

The scale of the U.S. SDI effort will probably incline the Soviets to restructure their efforts in the reform of research and development planning. The dual character of SDI technology may require Gorbachev to incorporate technological reforms for both civilian and military needs. For example, investment in computer technology has a military and civilian commonality. Institutional pressure

⁴The discussion of SDI is essentially from communication with Barry Breindel, Manager, Research and Defense, Washington Operations, Aerojet Telesystems Co.

⁵ Condoleeza Rice, 'The Development of Soviet Military Power,' *The Gorbachev Era*, Edited by A. Dallin and C. Rice, Stanford Alumni Association, Stanford, California, 1986, p. 137.

may build to force greater cooperation between research institutes and the scientific enterprises, serving both the civilian and military sectors.

It is widely assumed in the West that the Soviet Union can only adequately compete in the technological information revolution if it opens its advanced military and civilian research establishments to the effective scientific communication systems successful in the West. Openness with a relevant scientific community is a requisite for a dynamic, technologically successful R&D establishment. Foreign imports must be effectively assimilated in a system of incentives and rewards for a successful innovation system to work. To the military, such an amalgamation of its research within the civilian establishment and immediate priority toward developing a new, more dynamic system would require the deferral of traditional, short-term military claims on their R & D establishment and a long-term sharing of the scientific results. A leading factor in this new revolution is the civilian economy. Logically, the military cannot satisfactorily meet its needs from its own privileged, R & D monopoly; how many in the military hold this view is not known. Furthermore, the requirement of openness to foreign research makes the reliance on espionage less effective. Use of KGB middlemen in an era of space age research is likely to be less effective and inefficient. The opening of the scientific establishment to provide results for the entire scientific community also runs directly counter to the strongly held penchant for secrecy in the Soviet system.

It is easy to say that the military and KGB—the powerful institutions in the Soviet system—will not allow openness of their scientific research and R & D establishment and broadening of priorities for civilian-military research. But if they do not, they will probably lose ground, falling farther behind the United States, Japan and other industrial countries in critical areas. Gorbachev seems to understand this problem of 'neo-backwardness.' Still, he may not appreciate the full political and economic cost of the tradeoffs in institutional and resource priority changes, or the resistance of the traditional military support institutions to change.

III. Gorbachev's Political Tradeoffs: Cost of Empire and Great Power Status

A. Cost of Empire and Alliances

The Soviet Union provides support to its allies and clients through military and economic transfers. The value of military deliveries has been increasing as indicated in Table 2 below. To the extent these are not sales of state of the art, military equipment for hard currency or 'hard' goods [oil], but rather are military aid of less modern equipment or non marketable, 'soft' goods, the resource burden may be modest; the political risk may be the major factor. Still, Gorbachev at the Party Congress seemed to be leading Angola, Cuba, and Ethiopia to expect less support. Certainly Soviet leaders have been telling their East European allies that they plan to reduce what the Soviets perceive as a subsidy. How they follow through on limiting aid in hard goods will determine the incremental economic burden of their global role.

Table 2.
USSR: ESTIMATED VALUE OF MILITARY DELIVERIES, 1974-85
(billion U.S. dollars)*

Recipient	1974-79	1980-85	1974-85
Six Warsaw Pact countries	8.7	9.8	18.5
Syria	4.5	10.3	14.8
Iraq	6.0	8.2	14.2
libya	5.4	5.8	11.2
Vietnam	2.1	4.9	7.0
India	2.0	4.8	6.8
Algeria	1.6	3.6	5.2
Cuba	1.3	3.9	5.2
Ethiopia	1.5	2.6	4.1
Angola	0.7	2.8	3.5
60 other countries	7.7	11.3	19.0
<u>Total</u>	<u>41.5</u>	<u>68.0</u>	<u>109.5</u>

Source: "Soviet Economy Under A New Leader" CIA-DIA Statement, March 19, 1986.

The Soviet Union also provides economic as well as military aid to the same countries to assist them in pursuing goals of common interest. Oil exports on barter terms and soft currency accounts provide some measure of the cost. Various estimates of the implied subsidy of these transfers center on the supply of oil for reduced hard currency (dollar) imports compared to what may be obtainable by sale of oil in the world market. There are varying estimates of the volume of the net transfer but unless increased it may be a tolerable burden. The question for Gorbachev for the future may be whether the resource costs of these alliances provide sufficient benefits in usable political terms.

Soviet relations with East Europe have been by far their most important in political-military terms and the most costly. The Soviet total and relative East

**Soviet Economy Under A New Leader, Op. Cit., p. 7.*

European contributions to Warsaw Pact and hard goods trade make policy changes in this region most important. The Soviet Union might like to have its East European allies take on a larger burden of the Warsaw Pact costs, increase their delivery of high quality machinery and consumer goods to the Soviet Union and hold down their imports of oil and gas, but it seems very unlikely that these wishes will all come true. Moreover, East Europeans have always favored the claims of domestic investment and consumption on scarce quality resources over fulfillment of Soviet perceived economic needs for the Warsaw Pact. Soviets also favor revival of East European growth for resultant favorable trade and political stability. As a result, the least attainable of Soviet hopes among these competing claims would be an increase in East Europe's military burden sharing.

B. Cost-Benefit Outlook for Confrontation or Comity.

The policy of Gorbachev's predecessors since 1975, especially Brezhnev, has been to opt for military augmentation and confrontation in regional issues rather than economic cooperation and comity. This policy is best illustrated in the northern flanks of the Soviet Eurasian policy: North Asia and Scandinavia. In North Asia the policy of military buildup has been costly. Whether the benefits have been proportional is open to question. Shared development of Soviet East Siberia and the Far East would certainly be facilitated under a policy of comity, e.g. with Japan. Likewise, in North Europe the buildup of defense in the Kola peninsula and elsewhere has been expensive; the benefits may not have been commensurate. Negotiation of conflicting claims and joint development of oil in the Barents Sea would seem to be a benefit of a policy of comity with Norway.

In this past policy of Eurasian defense buildup and confrontation the greatest economic costs have been the foregone benefits of joint development of Soviet resources.

IV. Negotiable Issues

From the assessment of Gorbachev's tradeoffs as he may see them, some improvement in benefits and reduction of resource costs or burden seems possible in three areas of the Great Power agenda:

Strategic Arms Reductions: Mutual need for stability and reduced likelihood of strategic weapons use or reduced perceptions of external threat could generate a basis of agreement, especially if tied to constraints on SDI.

Conventional military forces in Europe and Asia: Mutual need to reduce instability and economic burden through reduction of current order of battle buildup to maintain control in East Europe.

Global Policy Understandings: Acceptance of some implicit codes of conduct, e.g., mutually acceptable levels of support to insurgencies, common opposition to international terrorism.

Whether and under what circumstances the Soviet leadership feels economic pressure to reduce the defense burden is a matter of conjecture. Some Western specialists would argue with scenario one or two that allocations to defense are not likely to be constrained. Others accept a version of scenario three (reduced defense, pragmatic scenario), that it is currently imperative for Soviet leadership to reduce the defense burden. Jan Vanous and Bryan Roberts, for example, feel that the Soviet General Secretary's view should be that now is the time for negotiations in order to avoid 'collapse' of his ambitious economic modernization program:

It is apparent that the Soviets will not unilaterally sacrifice what they perceive to be an adequate defense capability in order to improve the performance of the economy. They will try to come to the negotiating table and, in all probability, offer the U.S. unprecedented concessions for economic reasons outlined below. If they cannot secure a 'satisfactory' arms deal, they will follow the U.S. lead and mount a counter-SDI program, even though this may well push the Soviet economy perilously close to an unprecedented economic crisis.⁶

⁶Vanous and Roberts, *op. cit.*, pp. 1-2., this Appendix.

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