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4701 WILLARD AVENUE, CHEVY CHASE, MARYLAND 20815 (301) 656-4068

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BOBBIE BATTISTA: The superpowers have declared the Cold War is over, but Washington and Moscow still are spending huge sums on expensive weapon systems designed for use against each other. Entire industries that could be making consumer goods continue to pump out rockets, bombs, and other arms that may not be needed.

Next week in Moscow, a conference of U.S. and Soviet experts convenes to talk about ways of making the so-called peace dividend a reality and to encourage the superpower economies to manufacture more peaceful products.

William Colby will be a member of the U.S. team in Moscow. Mr. Colby was head of the CIA from 1973 to 1976. And he joins us now from our studios in Washington to talk about the upcoming conference.

Let's talk about this first from the Soviet angle, as the conversion will be much more difficult for them. At least a third of the Soviet economy is connected to the military in some way, especially, I think, in their technological and industrial mind-set. Do they have the know-how to go from making arms to making washing machines?

WILLIAM COLBY: Well, they'll have a hard time. Their biggest problem will be to privatize many of those industries so that they can get the incentive to produce the consumer goods. But there is an enormous pent-up demand in the Soviet Union for consumers' goods. So there's a huge market there to be served. And it's merely a matter of unhooking some of the present commitments and allowing it to respond to that demand.

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BATTISTA: Will you recommend that the Soviets take control of the resources away from these defense bureaucracies? Won't that be necessary?

COLBY: Oh, I think it's absolutely necessary. I think the Soviets are well aware that they have to move to a market economy and away from this totally state-controlled economy. Their problem is how to get from here to there without having enormous unemployment, inflation and uproar.

BATTISTA: I agree with you. I'm wondering if they will be able to get through their current economic crisis, or will that derail the effort that you're trying to make for their future?

COLBY: Well, what I'm talking about is essential to solve their current problem, as well, because they really do need better housing, better transportation, better utilities, better food, better clothes, better shoes, all those things.

BATTISTA: What about retraining personnel and rehousing military personnel that are coming back from the East Bloc? Have they made plans to accommodate this yet?

COLBY: Well, the Germans have agreed to build housing in the Soviet Union for the troops that were in East Germany. It's kind of a bizarre arrangement. But the Soviets were afraid that if they brought them back from East Germany, they wouldn't have any place to live. So the Germans have offered to construct the housing.

Now, there's a whole business of construction that's going to give jobs to a lot of people.

BATTISTA: There is another side to this coin. What's the biggest problem facing the U.S. conversion?

COLBY: Well, we have a lot of problems, too. For example, something like 60 percent of our research and development has been addressed to military subjects. Now, that's an absurd number, when you think of it, when you think of the way the Japanese have spent sort of 10 percent or less of theirs on military matters, then they've put the rest on designing good consumer goods, new kinds of devices, and have gotten way ahead of us as a result.

Now, we have to transfer that kind of research-and-development commitment to a new area.

We also have a number of industries which were heavily involved, and almost exclusively involved, in military construction. You take things like Northrop and some of those, that

almost their entire activity depended on the Pentagon. Whereas a company like Boeing has a large civilian sector, and they can transition much easier.

BATTISTA: Now, there may be some viewers out there who are wondering whether it's wise for us to be converting defense spending right now, in light of the Persian Gulf threat. Should we be diverting instead of converting?

COLBY: Well, we should be converting more of our effort in the kind of weapons that we need for a Persian Gulf situation. We don't need D-5 missiles and an SDI and a B-2 bomber for the Persian Gulf. We need fewer troops than we have today. We have 2.1 million men and women in our armed forces -- that's the regulars -- plus the reserves. How many do we have now in the Persian Gulf? Between two and three hundred thousand, perhaps. Is that -- could we have an adequate force with a million-man force? Yes, we could.

BATTISTA: What exactly will be your role at the conference?

COLBY: Well, I think I will try to talk about where the peace dividend can come from and how much it ought to consist of. And my view is that it ought to consist of approximately half of our present defense budget. As I indicated, reducing the forces by about a half, reducing a number of our more expensive weapon systems, like carriers, put them in mothballs. Don't throw them away, but keep them in case something should happen. And, particularly, terminating some of these far-out weapon systems that have absolutely no reason for existence, unless we're contemplating a nuclear war, which we are not.

BATTISTA: Are you optimistic about the success of this conference?

COLBY: I think it will be a process. The Council on Economic Priorities has been engaged in this study for over a year now, about how they might transition some of these industries and do some more useful work with them, both in America and in the Soviet Union. They've had some preliminary discussions, studies.

This conference will be a lead-up to a later one next spring here in Washington, an attempt to develop a specific set of recommendations for the governments and for the industries of the two nations to consider.

BATTISTA: One more question, if I may.

As a former CIA Director during the Cold War, has this

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been a sort of an interesting personal change in direction for you?

COLBY: Well, it's an interesting new look into the Soviet Union. I can go visit things now that I wouldn't have dared to be anywhere near years ago. So that's quite fascinating. The chance to really talk to Soviets on a friendly and cooperative basis. All of that is novel.

I've long believed that the purpose of intelligence is to enable us to know better what the other side is doing. And so that purpose I'm still prosecuting from my present position. But that better understanding, I think, gives you the basis for negotiating rather than threatening.

BATTISTA: Well, good luck and much success to you in the conference.

COLBY: Thank you.

BATTISTA: Thank you.

We've been talking with former CIA Director William Colby about converting the U.S. and Soviet economies in the new age of superpower cooperation.