SOVIET TASK FORCE
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Wednesday, December 7, 1988
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United States Senate,
Select Committee on Intelligence,
Washington, D.C.

The Select Committee met, pursuant to notice, at 10:50
o'clock a.m., in Room SH-219, Hart Senate Office Building, the
Honorable Bill Bradley, presiding.

Present: Senator Bradley.

Also Present: John Despres and Fred Ward, Staff Members.
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SENATOR BRADLEY: The Task Force will come to order. Doug, thanks for coming back and bringing your astute and perceptive and insightful colleagues.
STATEMENT OF DOUG MACKACHIN,
DIRECTOR, OFFICE OF SOVIET ANALYSIS,
DIRECTORATE OF INTELLIGENCE,
CENTRAL INTELLIGENCE AGENCY

MR. MACKACHIN: I might open by mentioning that, the
rumors are at least, that in about 15 minutes or so we may
find out if one of my analytical judgments is going to turn
out to be correct. And we can talk about the stories later if
you would like on the cuts. We really can't take you much
beyond the Washington Post this morning insofar as the
evidence.

What I thought we would do, as I say, I think you are --

SENATOR BRADLEY: Which is that? I didn't see the Post.
I began the morning in New York.

MR. MACKACHIN: This is the rumors that Gorbachev is
going to announce a unilateral --

SENATOR BRADLEY: Conventional force cut.

MR. MACKACHIN: It is an armed forces cut, not further
specified. We've had lots of evidence going back to last
summer, as you know, of a specific cut in East Europe. These
rumors may -- I mean, I can reconstruct the sources of a rumor
from the rumors of the changes in the military hierarchy to
the stories of some unilateral action and they could have come
together to create a plausible but totally unfounded story of
very large cuts, which provoked a shakeup in the military
hierarchy. Nonetheless, we have seen enough of Gorbachev that I would not rule anything as being out of the question. And so as I said, I know that I have taken a position for a long time that he will have to cut his military — the amount of resources, the proportion of resources that go to the military.

While I recognize that reforms and all of these things are necessary to ultimately sustain his economic program, at the present this is the only economic mechanism he has. There is input and there is output, and he is going to have to regulate that flow to get any results in the short term. But we will see that.

What I thought we would do today briefly is I would let Bob Blackwell review where the political situation stands. And then Paul Erickson will address what we think are some of the critical economic decisions which seem to have been made or benchmarks which we will be looking for in the short term. And at the end, if it is agreeable, I would like to talk a little bit about the kind of — the intelligence challenge that I think we face in the coming year or so and some thoughts I have had on that matter.

SENATOR BRADLEY: Okay.

MR. MACEACHIN: Bob.
STATEMENT OF BOB BLACKWELL,
NATIONAL INTELLIGENCE OFFICER FOR THE SOVIET UNION

MR. BLACKWELL: Senator.

Doug and his colleagues, I think, talked last October, some time in October, after the shoot-out in Moscow, about changes in the leadership, and gave you some observations then. I would like to build on that foundation. If you would like to go back and talk about some of that, we can. But building on it, I would point out a couple of things in the few months since.

One, we have seen further efforts in the sort of political consolidation game, both in terms of Gorbachev’s own position and in terms of the political reform agenda. There have been some backtracks here and there, but on the whole, a fairly decisive effort to try to push the gains of the fall and to consolidate those in early winter.

I would highlight a couple of things. One is on the front of the Communist Party itself. Last fall set in motion a reform of the Communist Party structure, its organization and its size. We have pretty good evidence now that that in fact has gone forward fairly substantially. If you would have asked any of us 6 months ago, we would have said this is one of the most sensitive areas politically in that system, and to even touch it runs great risk and would suggest it would be very difficult to do. I can tell you I think he in fact has
done it.

Some examples of it: he seems to have effectively neutered or reduced the significance of the Central Committee Secretariat by in effect putting most of its members as full members of the Politburo, and creating these commissions of the Central Committee with an individual Secretary being a Chairman of each. But it appears that the Secretariat no longer meets as a body, no longer has a number two man in power to administer the party machinery. It looks like he has found a way to get around the dead souls in the Central Committee as well as the Secretariat as an organization.

SENATOR BRADLEY: And you say he has done that by?

MR. BLACKWELL: Essentially the device is creating the Central Committee Commissions. There are 6 of them, each headed by a Party Secretary, but with defined areas of responsibility. Ad secondly, apparently by not having the Secretariat as an organization meet, or if it does, not meet very much. And then thirdly, not having someone who serves in the role as number two man in the Party hierarchy. Ligachev clearly does not and it does not appear that anyone else really does. Some people would argue that Zaykov, who is head of Moscow, may have moved up a bit, but that is fairly subtle stuff. But basically the Party machinery seems much more responsive to him probably than it did, at least at the highest level.
The other thing that has happened in addition to reorganizing the Central Committee's work into these commissions, is a cut in the staff by 30 to 50%. We don't quite know, but we do know it is going to be high. One of the elements of the reorganization of the Central Committee, incidentally, was basically to eliminate or abolish most of its economic departments that micromanage the ministries and whatever. They still have a commission on economic social issues, but they have done away with the departments that are there primarily to oversee particular sectors of the economy. They have an Agricultural Commission and they have an Economic Commission. The Economic Commission covers what formerly 7 or 8 departments would have probably covered.

The second thing they have done and it has to be viewed in parallel to this, I think, is a strong effort to --

SENATOR BRADLEY: Agriculture and what was the other one?

MR. BLACKWELL: Well, there are two economic related commissions. Social Economic is one, which is chaired by Slyunkov, who is a Party Secretary, and Agriculture is chaired by Ligachev. Not a friendly gift to him, I don't think. There are four other Commissions as well. Ideology is a third. Legal matters is a fourth. There is a fifth one on foreign policy. The sixth one escapes me for a minute. I will think of it in a second.

SENATOR BRADLEY: Okay.
MR. BLACKWELL: but anyway, that is basically the way they have reorganized the work.

The second thing they have done is a strong effort to try to transfer some authority to a legislature which in principle has always been there, but it has never really had it. This is something that I would say is in process, not completed. And we will see the completion of it next April, and then you will have to watch it for 2 or 3 years to really see how much of it has actually happened.

SENATOR BRADLEY: What is the date in April that it will be complete?

MR. BLACKWELL: I don’t think they have set a date. They set a date for Supreme Soviet elections in March and --

SENATOR BRADLEY: Yes, I saw the March -- the elections of the Supreme Soviet --

MR. BLACKWELL: And the new Congress of People’s Deputies is supposed to convene sometime in April. I don’t think they have given us a date yet. Or they have not announced a date. But it will be a big show because it will be the first time this large expanded group has ever met.

Obviously, you were thinking of a trip there somewhere around that time.

SENATOR BRADLEY: I mean, you know, that was my next shot. I was going to go in August; everybody is on vacation. In November and they said all the people would be in these
constitutional meetings. December they couldn’t receive me at
the proper level, whatever that means. And so I had said
April. Now you tell me the time I want to go there they all
have a big conference.

MR. BLACKWELL: Well, it won’t last more than a week.
But when it occurs --

SENATOR BRADLEY: but maybe it’ll be early April.

MR. BLACKWELL: Maybe it will be. Don’t know.

But in any case, this thing will get off the ground then.
But the thrust of it seems to be to try to create a more
effective legislature; that’s one. And also to give Gorbachev
another power base; that’s two. And we are seeing some
reflection of this already, just in moving of people like
Dobrynin and Zagladin, who clearly were demoted. But
nonetheless, they have been moved over the Supreme Soviet side
as advisors to Gorbachev. It looks like Akhromayev may move
over in the same way. I think in a way, of course, that is
taking them off line. Nonetheless, they may well be
consequential even in those roles. Dobrynin did come here to
New York even in his new capacity with Gorbachev’s entourage.

But I would say with both things, both the Party
reorganization as well as the Supreme Soviet, it is going to
take time to see how this plays out in acutality. It think it
is real. It is dramatic that he was able to do it. It helps
him. It is all of those things. But right now it is like
ruarranging the furniture and you really need to see how people sit in it for a while and how they use it. And it is still an open question as to whether you can breathe real life into that legislature or not. By making a portion of it more or less full time, you at least create some potential for it. And the fact that he is going to head it and seems to want to use it as an instrument to try to create more popular pressure on the administration of the country, the executors, is another reason why you might see that. It seems like that is where he wants more of the pressure to come from, rather than the Party organizations themselves.

The second issue I would pick up on and we can talk about it at almost any length because it is so dramatic, is the turmoil among nationalities. There are two things that I think have to be said about this. Some of it, like the Caucasus, clearly reflect age-old problems that have boiled up in part as a result of perestroika. Now, he says perestroika is only helping us to deal with it, but in fact perestroika and glasnost created an environment where people have lost their fear to a considerable degree, and speak out. In the kinds of areas as in the Caucasus between Armenia and Azerbaidzhan, this is a by-product of it. This is a no win situation for anybody down there because it has gone so far the area is in a virtual state of semipermanent martial law. They don't call it that and it ebbs and flows, but there is no
obvious easy solution in sight other than to try to sit on it for a while and hope they can just keep the violence under control and manage it.

SENATOR BRADLEY: And this is -- as of right not it is primarily Azeri, Armenia and some Georgian nationalists?

MR. BLACKWELL: There are some Georgian nationalist disturbances, but it has not figured in the communal violence. And also I think relatively speaking, it is of a much lower order than the other two.

SENATOR BRADLEY: So you are talking about primarily Armenia and Azerbaidzhan?

MR. BLACKWELL: Yes. And you are talking about over 100,000 refugees now, with Armenians going one way, Azeris coming another. I mean there is a lot of resettling of populations just out of fear -- fear of communal violence and the need to get into a more protected area. So I mean, they have got a real problem; it is not separatist in its thrust. It is not secessionist. But it is a management problem.

SENATOR BRADLEY: It's not Estonia.

MR. BLACKWELL: It's not Estonia. It's different than that.

SENATOR BRADLEY: It is; right.

MR. BLACKWELL: But to speak of the Baltic, that moves to the second of which Estonia is the most dramatic. The thing about the Baltic I think that is the most interesting is that
this is the area where the legitimacy of the Soviet state was always the most questioned, but yet it is the area where Gorbachev and his colleagues seem to have chosen to try to experiment with perestroika the most. Because in fact, what has happened in the Baltic is not just a product of glasnost and perestroika in that sense that is bubbling up because perestroika creates more opportunities. Gorbachev's own policies have abetted what has happened in the Baltic more directly than that, essentially by replacing a whole slew of conservative, old line Brezhnevite political leaders with reformers in the Baltic, and given them the charge it seems to be, to try to get on the right side of popular feeling as best they can. And so in effect what has come of that is that you have had party leaderships and Supreme Soviets, as in Estonia, that basically are really pressing at the edge of what Moscow in the end wants to allow.

Now, obviously there is a calculation here in the long run that they think, I think on Gorbachev's part, that maybe this can be managed, that the rationality of offering the Baltic more than it ever has had since Soviet rule came into it, will overcome the emotionalism of wanting to try to take it to its logical conclusion, which is independence, which Moscow will not allow. I think they have made that fairly Estonia is farther out. He seems to have been somewhat successful at pulling Latvia and Lithuania back a bit short of
pressing this to the end. this is an on-going process. But I
think it is clear that they are trying to treat that issue
very differently than they are trying to treat the problem in
Armenia and Azerbaidzhan because it is very different.

But you know, the end is not in sight. This is one of
the inevitable problems that perestroika of the sort he is
talking about has to ultimately deal with. It has just come a
bit sooner than I thought it would, partially because he
pushed it sooner than I thought he would.

Two other things briefly, because the other two have to
get in. Paul is going to talk about it, but this whole
general shift towards consumption is the -- or let me put it
another way. The need to give people a reason to believe in
perestroika has become ever more evident -- ever more evident.
In any case, it is an obvious political need on his part. He
has got to get the populace to buy into it and right now they
aren't because basically they don't know where don't know
where the beef is. That is the third point.

And then the last one that fits in this same period is
what I would call foreign policy activism. I don't want to
turn this discussion over into it, but obviously the New York
initiative; the acceleration in relations with China, which
you have been talking about for some time; the fact that you
are going to have a summit next year almost certainly I would
say; their national reconciliation or what you could call a
constructive role in both Vietnam and in Angola in trying to reach some sort of settlements there even in the Angolan case one that is orchestrated and managed by us. It is a very activist approach geared both for its own sake, that is, better foreign policy as well as creating this kind of environment that he wants. I would also submit --

SENATOR BRADLEY: That environment being?

MR. BLACKWELL: Very benign, very accommodating, very--that is, the Soviet Union as a constructive world power rather than as someone who is always -- I mean, I think that is the image he wants and to some extent the reality in ways. Not necessarily --

SENATOR BRADLEY: So he gets trade.

MR. BLACKWELL: I think he probably thinks that is further down the road in terms of-- Paul is going to talk about it so I will let him handle the trade part of it. But I don't think that is the immediate thing. I think there are political benefits to be had in general in terms of creating a better image for the Soviet Union. And also I think he has done a cost-benefit analysis of what some of these other areas like Angolas and Vietnams amount to and has decided there is a better approach for the Soviet Union than the one he was pursuing, one that both cost less and is politically more beneficial and doesn't hurt his security and doesn't threaten much of anything.
Other thing on this one point though that goes back to the power consolidation earlier, one impact of what happened in September and October in Gorbachev's assuming the presidency, Ligachev's downgrading and all of this, has essentially been to increase his clout. He already had a lot of it. But to increase his operational and tactical control over foreign policy decisionmaking and I would say national security decisionmaking. His allies, Yakovlev and Shevardnadze sit athwart that, Yakovlev heading the foreign policy commission, for example, in the central Committee, Shevardnadze the Foreign Ministry. The changes resulted almost certainly in changes in the Defense Council composition. We don't have evidence for it, but based on precedence and what we know about who usually is on that body, one could judge that. Even Kryuchkov's coming to power in the KGB would probably be viewed as furthering that.

I think you are seeing a Soviet --

SENATOR BRADLEY: Furthering what?

MR. BLACKWELL: Furthering Gorbachev's effective control of the foreign policy-national security policy decisionmaking process. Sort of not just as coterminous with the Politburo, but the key players are his, or at least very responsive to where he is going to want to go. And if we indeed are getting large decision made on this at the UN, I think it would be reflective very much of decisions that at least go back that
far -- of thinking further back than that, but of decisions
that come out of this. I don't think we can underestimate the
importance of those changes in terms of how it has probably
helped him in foreign policy.

SENATOR BRADLEY: In addition to Shevardnadze and the
Defense Council, you said who?

MR. BLACKWELL: Shevardnadze would have been there
anyway. Yakovlev would now be there. Kryuchkov, the new KGB
Chairman, would probably be there. Ligachev would probably be
out if he had been there before. And Chebrikov might be out
also. Don’t know. We don’t know precisely. But the thrust
of all of this is -- and Gromyko would be out, of course,
which is another important one in that context.

So you are dealing with a political leader in a stronger,
more authoritative position on some key areas in dealing
simply with the West. And I think that you see that partially
in his activism and I certainly would say if you get any
dramatic move in conventional arms of that sort -- and we'll
talk about that later -- it has to have reflected this
political reality as well as the sort of larger policy reality
of his ability to drive a consensus and have a lot more
support in the leadership than we probably have given him
strength for -- taken into account.

That doesn't mean that problems go away, that
perestroika works. You know, all those kinds of caveats I
have not talked about. They would still be there. If you
want to, we can get to them.

STATEMENT OF PAUL ERICKSON,
DEPUTY DIRECTOR, OFFICE OF SOVIET ANALYSIS,
DIRECTORATE OF INTELLIGENCE
CENTRAL INTELLIGENCE AGENCY

MR. ERICSON: What I thought I would do is kind of couch why he is taking some of the moves he is taking and what he hopes he'll gain and what he is not doing. I think that the need to gain additional flexibility on economic issues may have also played in last September's events. I think we'll point out that there were leadership disagreements surrounding the FY 89 plan — that it surfaced — and also perhaps on the upcoming Five Year Plan, and that some of the steps that he has taken have addressed some of these disagreements.

I think Gorbachev felt that it was increasingly clear that his reforms would have to be in some ways more rather than less radical, and that he had concerted resistance to some of these reforms. At the same time, I think he felt that he could not afford to wait for such reforms to take effect. He needed the old style resource transfer — the bullet that he had been trying to dodge for the last few years -- and that he needed to have shifts to the civil sector primarily from the defense sector. It was clear to him that the workers were not going to put their backs into making perestroika work until there was something tangible on the table.

Domestic inflation which we'll talk about raises yet
another problem and the need for yet another set of
initiatives. In fact, the economy has not performed well this
year. Soviets can point to a rise in investment spending, but
at the same time, the commissioning of new plants is down.
And so what you have is a chokepoint. They tried to do too
much too fast, and you have a lot of unfinished plants because
you just can't get everything to everyplace, and there was too
much competition for key inputs. And so his modernization, if
you look at it in terms of bringing new modernized capacity on
line, was clearly falling behind.

At the same time, he had a situation where you could
point to increased production in consumer goods, but increased
consumer dissatisfaction. Inflationary pressures led to
longer rather than shorter lines and marked price increases in
those markets that were private. Fruits and vegetables,
moreover, in short supply because of a poor harvest in
'87-'88. And even though we see signs of substantial
increases in meat production, complaints from consumers on
meat have been substantially on the rise.

SENATOR BRADLEY: On the quality?

MR. ERICSON: No; availability. We frankly haven't
figured out the discontinuity.

SENATOR BRADLEY: That there is increased production --

MR. ERICSON: That by all indications there was an
increased production while at the same time there have been
increases in complaints about shortages.

The budget deficit problem as well is coming home to roost as they begin to sense that it was a real issue. Overall growth is likely to be about 2% this year. It's a soft number. They will make no major gains in modernization.

I think Gorbachev and his economic advisors are increasingly aware of the risks and costs of fundamental change. I think they -- as one of my colleagues would say, they walked up to the cliff of radical reform and took a look down in the gorge and backed off. I think Gorbachev realizes that he cannot move ahead aggressively on price reform and some other major initiatives and decentralization. For example, he stepped away from quality control. So even though he has in all likelihood gained additional flexibility as a result of this fall's events, my sense is that the pace of reform may be a little bit more measured in many areas than we would have thought.

But he has advanced and moved ahead aggressively, I think, in two main areas. The first has to do with consumer welfare. We believe that the FY 89 plan received some last minute revisions. For example, in early September we were hearing about public complaints by light industry about investment having been cut. We were hearing other noises about investment going to agriculture having been cut. But yet when we see the final plan, these cuts did not
materialize -- in fact, investment in light industry and housing, food processing -- all sectors associated with consumer welfare -- have been emphasized. Importantly, the shift comes at the expense of investment elsewhere as near as we can tell, there have been cuts form planned investment

(Pause.)

SENATOR BRADLEY: At the expense of what?

MR. ERICSON: Of investment going into some heavy industry. The Soviets have established what they call 49 priority industries. And my sense is that what you are seeing is a recognition, in part tied to the lack of commissionings and the competition for investment durables, that to get the job done they have to narrow the scope of their efforts and focus on a smaller set of industries. This strategy also allows them to free up some investment resources as well.

Gorbachev also has expanded private and cooperative opportunities and offered long term leasing arrangements in both agriculture and industry. And I think we are seeing more of that than we would have otherwise have seen.

A second area worth noting is what seems to be increased pressure on the defense industry to boost production of the civilian sector. I think if you go back and look at the record on this, the leadership started out by transferring some managers from the defense to the civilian sector to boost management productivity. Then you saw pressure to boost
production of investment goods out of the defense sector. 
Most recently you saw the tasking of the defense sector with 
the production of what had heretofore been civilian plants. 
And lastly what you are seeing are clear statements by 
officials from the defense-industrial sector that they have 
made accommodations and will be boosting production of 
civilian type goods at the explicit expense of defense 
production.

We haven't seen --

SENATOR BRADLEY: You mean they will close military --

MR. ERICSON: They'll say I've got to close this plant to 
meet these civilian production targets.

MR. MACEACHIN: Or, I have to retool this plant to 
produce -- stop producing what it has been producing and 
produce something else.

MR. ERICSON: For example, in mid-October, on national TV 
-- Prime Minister Ryzhkov blasted the Chairman of the Military 
Industrial Commission for inadequately supporting the 
leadership's civil-economic agenda. At that time he ordered 
defense industries to staff newly acquired civil plants 
quickly with their best people and to integrate specifically 
the production of food processing equipment with their main 
activity, weapons production.

SENATOR BRADLEY: Could I interrupt a minute? I have to 
take a 10 minute break to see this Japanese minister.
(A brief recess was taken from 11:20 to 11:42 o'clock a.m.)

SENATOR BRADLEY: We left off with your second point that the defense sector is actually spending more of its own money on these other non-military areas.

MR. ERIKSON: That's right, Senator. I think -- there had been a couple of other public announcements by managers in the defense industrial sector that have been somewhat specific, including language to the effect that certain production lines would have to be closed down, which lend credence at least to the seriousness with which the defense industrial sector is according to leadership issuance of orders to boost civilian production. We have yet to see a flow of product, as we said, and we have yet to see anything tangible, but it is our judgment that a mandate has been laid down and that the leadership is serious and that its orders will be followed.

The third point I want to raise pertains to where Gorbachev wants to go from here. He ends 1988, basically a year where nothing happened with worsening inflation. He has a new sense of flexibility. He has taken that flexibility and moved towards greater privatization, throwing more resources at the consumer and laying down some additional markers vis-a-vis defense,

I would like to point out that we now look at the next
five year plan as an indicator of where he is moving with this
flexibility. If Gorbachev wishes to make significant shifts
in investment between the defense and civil sectors, certainly
now is the time to do it. It is optimal in terms of the
Soviet planning process as it pertains to defense planning to
finalize resource allocations over the next five to seven
months. It doesn’t mean he has to do it now, but it is the
optimal time to do it.

I think that over the next five years he will continue to
decentralize, but I think that he remains stymied -- the
entire leadership remains stymied over the role of prices and
marketization in general. They haven’t figured out how to
solve that problem and continue to walk around it.

I think you are going to see in the next five year plan a
continued push on modernization clearly, but a more focused
push as they better understand what the economy can do.

SENATOR BRADLEY: But when you say continued focus on
modernization, you mean new plant and equipment?

MR. ERICSON: Yes, sir.

SENATOR BRADLEY: Okay.

MR. ERICSON: But you know, and I am just speculating
here, that what you may not see is storming type approach that
you saw as being very prevalent in the last two or three years
that they have learned from that.

But Gorbachev has a number of problems which are coming
home to roost which will complicate his life immensely. He
must find a way to balance his budget in some fashion, or else
inflation, as it did this year, will erode any gains in
consumer welfare that he is able to bring home. As a matter
of fact, in today's NID there is a feature on next year's
problem. The 1989 plan is more, rather than less,
inflationary because he has called for increases in spending
on the consumer that are not matched by decreases elsewhere or
by increased revenue. The economy is still overheating.

How he addresses this is problematical. But I think that
what he has done, by publicizing it, is to lay down a marker
among a number of the Party and the civil sector that
something has to be done to raise revenues.

SENATOR BRADLEY: So he is not only going to give people
higher prices, less job security, but now he is going to give
them higher taxes?

MR. ERICSON: Well, I would imagine that he would feel
more comfortable in terms of lotteries or some other type of
indirect means of soaking up excess income. And he has other
options which the Soviets have used in --

SENATOR BRADLEY: The stock market? I mean that is the
first thing I thought of when I heard this idea that they were
going too allow private citizens to invest in stock.

MR. ERICSON: That's part of it. You could look at it
from that perspective, and that plays a role, yes.
MR. MACMAHON: I think they are trying to get the revenues back from the tax on alcohol that they lost.

SENATOR BRADLEY: Right; right.

MR. ERICSON: What he is not going to do is raise -- you know, my sense is he is not going to do it by reducing his subsidies. I mean, part of his problem is the heavy subsidies in consumer staples. And that would solve a lot of his problems, to let retail prices rise. And that --

MR. BLACKWELL: Prices could be raised on luxury goods and other kinds of goods -- if he did that.

MR. ERICSON: But he has got a problem here, a serious one.

A problem he hasn't focused on is energy. The cost of maintaining production for oil and coal are accelerating. And the certainties associated with the ability to maintain the level of production are decreasing. We haven't seen the Soviets focus on this one. We think it will be a big issue over the next five years.

Part of the Soviet program traditionally was to address this by more nuclear energy, but Chernobyl provides a potential rallying point in some -- for nationalistic aspirations so he has a hard issue here.

I would like to end with what all this means for foreign trade and East-West economics, and what have we seen over the last few months.
I would assert that an indigenous solution remains preferred. We have no indications of a major import push, nor do we believe that there will be one barring almost panic buying to quiet consumer unrest. I think the Soviets are sensitive, extremely sensitive, to the risk of becoming financially leveraged to the West. And I think that they are uncertain about their ability to maintain export earnings over the medium and long term. And given this uncertainty, building up indebtedness carries significant risks. Moreover, I think they continue to harbor misgivings about the effectiveness of direct equipment purchases, particularly when their domestic industrial base is in transition. There are problems today bringing plant and capacity on line, and the foreign trade sector is still in the midst of reorganization.

I find it personally useful to characterize their foreign trade initiatives as being those that are designed to rationalize trade and technology transfer, and to design and implement rules and procedures that allow for the most effective tapping of western technology and capital, and ultimately to maximize their opportunities for export sales —

SENATOR BRADLEY: So basically you say they want to tap technology and take joint ventures to try to increase exports?

MR. ERICSON: Well, it may not be a one to one, Senator, but I think what Gorbachev needs is western know-how, not just
western equipment. And western direct investment commits the
western commercial firm to the success of the venture in a
fundamental way. And that is what he wants.

When we talked about the benign economic environment and
the linkage to economics, I think it lies precisely here. It
is one thing for a western firm to go in on a consumer goods
project, let’s say in China, to make gym clothes, where the
payout happens in 18 months or 12 months. It is quite another
thing to have a western firm go in to energy development or
basic industries or some other type of thing that the Soviets
needs where the payout may be 5 or 6 years in the offing. And
it is my personal view it is precisely to encourage western
commercial interests to take a long term position that he
needs to have this benign atmosphere.

That is not to say that the whole idea of credits and 9
billion here and 8 billion here does not serve his purposes.
But I would note that the orders are yet to be forthcoming.
And it has a lot to do with the broader dynamics.

SENATOR BRADLEY: But that implies that he has got to
really create a climate of some real stability for people to
believe that it is good for 30 years. I mean, he has got to
be even more dramatic on the conventional force side and on
the defense budget side than he has been to date than I have
heard anybody say or I have heard anybody say he is going to
be.
MR. MACEACHIN: Up until 15 minutes ago, perhaps.

SENATOR BRADLEY: But you say even 30% cut in forces, I mean. You said 30% cut in his military budget was the rumor?

MR. MACEACHIN: The rumor was forces.

MR. BLACKWELL: Forces. The size of the force.

MR. DESPRES: Forward deployed forces?

MR. MACEACHIN: No.

MR. BLACKWELL: No. I mean, if you did it a million and half or so --

MR. MACEACHIN: We're talking on the order of a million person cut and whatever attends that in terms of structural reduction.

SENATOR BRADLEY: But let's say that that flows through therefore to the defense budget, right? Meaning that you then can cut the defense budget. But the firms that are going to make these commitments, they're not going to make them all in one year.

MR. ERICSON: That's right.

SENATOR BRADLEY: So I mean, if he has to create this climate by dramatic reductions or whatever, even to attract the serious commitment, that if at any point in year 1, 2, 4, 5, 7, things begin to go bad, these firms just won't be --, right? They'll just pull out. They just won't -- they reach the point where they will have to make a judgment and cut their losses.
MR. ERICSON: I think a fundamental problem that he has in my view is that the time horizon for the kinds of things that he wants out of joint ventures is incompatible with the state of affairs.

SENATOR BRADLEY: With what he has to do to attract it in the first place.

MR. ERICSON: Right.

SENATOR BRADLEY: You seem to be downgrading in importance this problem that he has with the mass of people saying -- as you said, Bob, where's the beef of perestroika on consumer --

MR. BLACKWELL: Oh --

SENATOR BRADLEY: He can purchase a lot of things. He can buy a lot of perfume or clothes --

MR. ERICSON: That's right.

SENATOR BRADLEY: -- or food and put it on the shelf. So the people say, uh, see what perestroika has meant for me. But that is really just a short time thing.

MR. ERICSON: It is a high risk --

SENATOR BRADLEY: That is not a whole lot different than having the central bank advance credits to the enterprise and say that is an advance because productivity is going to increase. It is essentially having us play the role of central bank or whatever, advancing to them their goods with the assumption, well, productivity is going to -- but if he
doesn't get to the reforms, it is just a short-term thing which will ultimately lock him in more and more to a relationship with the West which is -- which makes him a kind of supplicant. I mean, he can only --

MR. BLACKWELL: It would make no sense --

MR. ERICSON: A superpower supplicant, that's right.

SENATOR BRADLEY: It makes him a true developing country.

MR. ERICSON: That's right; got it.

MR. BLACKWELL: It would make no sense unless he is following that up with both changes in sort of the production of consumer durables, the incentives that go into it, and the movement of factories to producing it, to providing those things on their own. Because otherwise he'd be chasing --

MR. ERICSON: Well, he still would make those moves. The issue is what happens if they fail. The risk you run if he doesn't make it.

MR. BLACKWELL: But they can do a better job in that area by moving some resources to it.

MR. MACEACHIN: Well, at the risk of oversimplifying, to go back to one thing Paul said earlier, where Gorbachev previously was driving a pace of reform and a pace of change that the system wasn't ready to absorb, he has modified that approach -- he hasn't abandoned industrial modernization, but he has recognized and has focused on the need to develop a sustaining motivation for change. In the area of foreign
policy, this is something where we could probably spend most
of the day, because the developments that have been occurring
are very interesting. You may remember a session we had here
-- I think it had to do with South Asia -- when we got into a
discussion of what we saw at that time as a changing Soviet
paradigm for foreign policy strategy. In effect, the "new
thinking" said that heretofore the USSR has relied on military
power to manage its security. That is very expensive and
resource consumptive. The USSR should develop a political
strategy which will not only maintain but perhaps enhance
security at reduced cost.

We have seen this summer with the heating up of the
discussion with the Shevardnadze addresses, followed up by the
shake-up in the Central Committee and Medvedev's reaffirmation
of this move away from the class struggle as defining the
purposes and objectives of foreign policy. If you will, it is
movement towards a more real politik. I think Gorbachev would
still see geostrategic, geopolitical East-West competition.
But the way it is now being articulated -- and Bob Blackwell
just went down the hall to watch some of Gorbachev's UN
address on television, and tells us that it is very much the
Shevardnadze line, which we may have all heard, but which is
going to be rather impressive to an audience that hasn't heard
it -- which is saying that heretofore -- I am not going to
quote, now, and quite frankly, I am drawing a lot on some of
the other theoreticians, too -- but what it says is that the
USSR has presented to the world a threatening image, and the
world has reacted to that threatening image and the USSR's
need for strong forces has become a self-fulfilling prophecy.
It also says that because the USSR viewed all foreign policy
ventures in terms of a class struggle rather than in what is
in its best interest, taking into account the mutual interests
or the legitimate interests of others, we've created this
situation which has imposed this heavy burden.

And if we can remove -- well, excuse me. There is one
more aspect of this which is quite interesting. I am getting
a little academic here. But some Soviet theoreticians, who
have acceded to positions of political influence in recent
years, have written about the U.S. military-industrial complex
and its ability and the U.S. military power as being the chief
source of U.S. political influence around the world, and that
the way to weaken the U.S. influence was to attack that. And
they seem to be saying that the way to attack that is remove
this threatening image, thereby removing the ability of the
U.S. to exert its political influence in places like North
Asia, the North Pacific and in Europe.

All of which is a long lead-up to say that what I think
you are seeing in Europe and what I think you are going to see
even more of in the coming year, regardless of whether there
is a major announcement today, is a heating up or a much more
intensification of the effort to convince Europe that the
Soviet Union is less of a threat. That gives Gorbachev far
more latitude to pursue his own internal economic agenda.
Trade will be a part of that, but only a part. And it will
also strengthen his hand politically in Europe.

So I think that to see Gorbachev's foreign policy agenda
in Europe solely in terms of getting access to trade is to
narrow it too much. He sees it as freeing up this burden of
defense. One comment on that burden of defense; I certainly
agree — in fact, my sort of wind-up comments here had to do
with looking out at this future and how long it lasts, but it
is going to be important, I think, to keep in mind that if
Gorbachev is able to politically bring about something on the
order of a reduction of military forces, which really goes
back to Khrushchev in 1957 — I think it was '57 to '59
Khrushchev made the first big set of cuts — if Gorbachev is
able to politically manage this, it would suggest to me that
there is enough consensus behind the whole issue of resource
allocation between civilian and military purposes that even if
he should pass from the political scene himself four or five
years from now, because of the particular nature of certain
reforms or political infighting or political scars, that there
is at least enough of a body of opinion that wants to move in
that direction that that part of it may well sustain itself.

Which brings me to this long range problem that we have
for the Intelligence Community. And I have to look at it
somewhat parochially. I look at the Office of Soviet Analysis
in CIA as a starting point, and I have tried to think a lot
about this recently, both because I knew I was going to end up
here today and for a meeting that we had amongst the Agency
hierarchy about a month ago. And I thought of a couple of
fundamental points we need to keep in mind, if I can be
permitted to go into a little bit of extraction.

First, so much discussion I find myself in, both in the
government and in the outside world, focuses on the Soviet
Union in almost an academic way, like we are all sociologists
studying this sociological phenomenon or this political
phenomenon. And there is a need to remember that the bottom
line is, what does it mean for the United States. Now, that
is the job for us as intelligence officers. If we all retire
and take up academic posts, there may be some more freedom.

Secondly, the Soviet Union in many ways is a fundamental
part of the American political concept. It is -- I mean, I
think back, I went to school, there was Stalin --

SENATOR BRADLEY: The postwar concept.

MR. MACMAHON: It is the postwar concept. It is what
all of us who grew up in the postwar period, and even -- I
think of my parents and their outlook, who were young marrieds
during the war -- and the Soviet Union is so fundamental to
our outlook on the world, to our concept of what is right and
wrong in politics, to our sense of security, that major change
in the USSR is as significant as some major change in the
sociological fabric of the United States itself. And that is
not a frivolous point. I think, because it gets down to what
has been the analytical challenge for us and what I think is
going to remain the analytical challenge for us.

A news bulletin. Gorbachev will cut troop strength by
500,000 over the next two years, and will substantially cut
conventional armaments. 500,000 is a fairly --

MR. BLACKWELL: 10%.

MR. MACEDACHIN: That's 10%.

MR. DESFRES: The bulk of that can easily come out of
East Asia.

MR. BLACKWELL: Don't bet on that.

MR. MACEDACHIN: Let us return to that subject in just a
moment. Let me finish this; I'll come back to that. That's
true. So we now have a new analytical challenge for the
coming year, and that is finding out where these --

SENATOR BRADLEY: His speech did not ask for
reciprocal?

MR. BLACKWELL: Speech is not done yet. This is sort of
mid-flight.

MR. ERICSON: This is analysis on the fly.

SENATOR BRADLEY: Okay.

MR. MACEDACHIN: We'll get an update and then we'll come
SENATOR BRADLEY: No, but keep going Doug, because I find this very interesting.

MR. MacEACHIN: All right. Now, one of the things -- and I'll be completely candid. I have made some frivolous remarks on social occasions about if Gorbachev is successful, he will cause major social displacement in the United States, but that is only -- that is not entirely frivolous. There are not many homes for old wizards of Armageddon, and it is kind of like old case officers trying to find employment. But it is so fundamental that in all honesty, when I think of what has been the burden on resources of the last few years, a major part of that burden has been not just in the analysis, but in the brokering of the analysis.

SENATOR BRADLEY: The what?

MR. MacEACHIN: The brokering --

SENATOR BRADLEY: No, no, no; you say the real what?

MR. MacEACHIN: I think of what has drained our analytical resources. That is, analysts' hours, analysts' weeks, analysts' months and what have you. There is both the effort to do the analysis and there is the effort to formulate the understanding and to articulate that understanding in a not neutral political environment.

SENATOR BRADLEY: In a not mutual --

MR. MacEACHIN: Neutral.
MR. BLACKWELL: Neutral.

SENATOR BRADLEY: Okay.

MR. MACEACHIN: That is to say -- let me come back --

SENATOR BRADLEY: You mean it is to articulate the
analysis in an environment that presupposes the Soviets as the
enemy?

MR. MACEACHIN: Well, that presupposes all kinds of things
about the Soviets. Now, let me make one more remark here that
puts some of this in perspective. I don't believe that you
will be able to find anywhere, in the government, out of the
government, think tank, academic, or otherwise, anyone who
articulated in 1984 a forecast or an outlook, even as a remote
possibility. What we have seen in the last 4 years -- I do
not think that exists.

Now, we spend megadollars studying political instability
in various places around the world, but we never really looked
at the Soviet Union as a political entity in which there were
factors building which could lead to the kind of -- at least
the initiation of political transformation that we seem to
see. It does not exist to my knowledge.

Moreover, had it existed inside the government, we never
would have been able to publish it anyway, quite frankly. And
had we done so, people would have been calling for my head.
And I wouldn't have published it. In all honesty, had we said
a week ago that Gorbachev might come to the UN and offer a
unilateral cut of 500,000 in the military, we would have been
told we were crazy. We had a difficult enough time getting
air space for the prospect of some unilateral cuts of 50 to
60,000.

SENATOR BRADLEY: What do you mean, getting air space?

MR. MacEachin: Well, getting it written and getting it
articulated without it being hammered to death and --

SENATOR BRADLEY: You really are -- this is extremely
helpful and provocative. Because -- see, you are saying that
one week ago or two weeks ago that you -- that the 500,000
person prediction would have been snuffed, basically.

MR. MacEachin: Well, we would have been able -- we would
have -- if we would have had some legitimate evidence from a
reliable source with access who says it was going to happen,
we would have been able to exercise our responsibility to
report this information and comment on it. But I can assure
you that that comment would have been heavily caveated and the
arguments against it would have been heavily driven towards
presumptions about Soviet behavior.

MR. Blackwell: Senator, if I could just add something on
it, just to get the sense of disagreement thee. Up until two
weeks ago or yesterday for that matter, there were real
differences in the Intelligence Community over how much
economic strain the Soviet Union is under and how much they
have -- the kind of economic motivations for cutting defense.
That is at one level. The real differences in the Community were as to whether the Soviet Union would undertake any significant unilateral cut at all. I am not talking about 500,000; I am talking about 50,000 or 20,000 or anything that was otherwise not tagged to something reciprocal.

MR. MACEACHIN: And I don't want to pick on any individual --

MR. BLACKWELL: No, and I didn't say anything about any individual.

MR. MACEACHIN: But one person has already disparaged the 500,000 that I just announced here. Someone in the room; I have forgotten who it was.

SENATOR BRADLEY: Oh -- yes.

MR. MACEACHIN: But my point is when I think about the analytical challenge or the intelligence challenge of the future of the Soviet Union, it may be my bias having spent most of my career in analysis, but my experience of the last several years says it is still going to be in analysis. It is still going to be our ability to ferret out the information; our ability to do a careful, rigorous analysis; and our ability to present balanced, even if somewhat provocative and unconventional views.

Now, I think we have had some success on that in the last few years, and I will try to describe what kind of environment I think has contributed to the success and also contributed to
the cost, and where I think we will be going with this.

Now as we said, the Soviet Union is such -- and the
perceptions of it are so ingrained, there is no one who is
really neutral about it -- except for me -- and objective,
that we can make logical arguments but we have to be able to
get down to hard evidence. About four years ago we
restructured our analytical component that dealt with the
Soviet Union, and I can’t say we did it because we forecast
what was coming down, but we did put a heavier effort on
societal issues, we did make a much heavier analytical
commitment to defense industry than had been the case before,
and we did about half of this by restructuring our own
effort,. It was not just through increased resources. And I
think that that is what we are going to have to look at in the
future.

We are going to have to go back and take a look at how we
use our available analyst hours, because I don’t see a great
period of largess in terms of numbers of resources. And so it
is going to have to be efficiency; a little perestroika of our
own. We spend a great deal of time on presentation and many
of us wish we didn’t spend so much, and we’re trying to
experiment with some new forms of publication which are less
draining of time.

SENATOR BRADLEY: You mean you spend a lot of time
writing up doubts?
MR. MacEACHIN: Writing, reviewing, polishing and going over the texts --

MR. BLACKWELL: Editing, massaging --

MR. MacEACHIN: It is not just editing.

SENATOR BRADLEY: Getting ready to defend what you write, basically.

MR. MacEACHIN: Because one of the developments of the last 5 to 10 years in intelligence that has been most pronounced from my perspective, has been the greater exposure of the product of the Intelligence Directorate to other readers, including the Congress. And that means that there is no forgiveness for carelessly wording things. I will give you an example with which I think you are quite familiar.

We did a study some time back, a study which has stood up against heavy scrutiny from people who don’t find its message to be helpful --

SENATOR BRADLEY: On oil?

MR. MacEACHIN: No, sir. This is more recent than that.

SENATOR BRADLEY: Oh, okay.

MR. MacEACHIN: This had to do with the readiness of Soviet forces in Europe to go to war; how much time it would take them and how ready they would be. We got a few hits in the newspaper on this. We outraged many people in Allied Intelligence Services. NATO has -- I guess I haven’t talked to an official of an Allied Intelligence Service in a year who
hasn't taken me over in a corner and asked me when I am going
to get off this silly position we have that the Soviets can't
go to war in 48 hours. I understand the political problem of
these Allied Service reps. My point being is --

SENATOR BRADLEY: You mean, you're saying that NATO
couldn't go to war in 48 hours?

MR. MacEachin: The Warsaw Pact could not. And would
not. It has no plans to. In fact, there was a piece -- we
gave a briefing on that to the House, and it finally
contributed to the piece that --

SENATOR BRADLEY: Yes, I saw that.

MR. MacEachin: Now, that -- there was one paragraph in
the piece that was carelessly worded which should have said
that as a consequence of many improvements the Soviets have
made in their forces, they had also brought upon themselves a
much greater requirement for mobilization. A much larger
infusion of men would be required in order to get the kind of
sustainability that they had sought in these improvements.

The paragraph was somewhat carelessly worded to say in
one aspect they are less ready. Well, that one sentence
caused a furor in two continents.

And my only point is that --

SENATOR BRADLEY: so you have to take your documents and
your analyses which, while precise, should be loose enough so
that it allows creative thought, and instead you treat them as
-- you have to treat them as if they are speeches in a
campaign where every word will be looked at. Or speeches of a
leader or head of state?

MR. MacEACHIN: When you are dealing with the Soviet
Union, yes Sir. There is not much slack. So --

MR. BLACKWELL: Talmudic.

MR. MacEACHIN: So we really do have to work very hard at
this.

Now, I don't want to make this sound all bad because I
will be completely honest. I mean the word politicization is
used and it is used incorrectly. Intelligence judgments have
a lot more political resonance than they used to because they
get more exposure in the press, in the Congress, in the
public.

On the other hand, from adversity strength, perhaps. In
my own view, because of this, our product is better so long as
we continue to insist that we are professionals and we want
the best analysis. And we're going to find a way to deal with
this sensitive and loaded consumer market. And we're going to
have to make our analysis better, work the evidence, be
careful about the formulation of the judgments, don't go --
don't be overly assertive, and try to do those things which
intelligence can do that other people can't.

Now, many professors on the outside write, they print in
the media, and they get great attention. Many of them, quite
frankly and interesting, that have more credibility with policymakers simply because they're not part of the intelligence establishment.

MR. MacEACHIN: What I am saying is that this is a far more challenging problem. And if we are going to get in credibility with the consumer, we have to demonstrate that our product is more reliable, more carefully documented, more carefully researched. And when we articulate these judgments -- well, I think, that we had a session here following some press discussion of our economic analysis.

A soviet economist can get out a back of an envelope under Glasnost and do a piece and that piece will capture more attention and, in many cases, more credibility than all of the work of all of our terrific blue-collar analysts who walk in every day, put down a lunch pail and grind away and muck away on these data and produce things like the paper on the deficit, for example.

SENATOR BRADLEY: Right.

MR. MacEACHIN: We we first came out with our studies and said Soviet defense spending -- the growth rate -- has dropped to something about one or two percent and stayed there for a long time... that work has to stand up. And we devote a lot of resources to it.

And I guess I'm not going to say this has to change. What I'm going to say is in some respects I think because most
of us have this commitment -- most of us have this commitment
-- we are intelligence officers, just like some people are
lawyers and doctors, that we're going to succeed in making
this better.

I think that the product has gotten better because we've
dealt with the more intense environment. And we've dealt with
it because we've paid more and increased attention to the
product itself. And because, since the rest of the world is
going to be playing, we're going to play with the rest of the
world.

Now, we have routine, and, unfortunately, sometimes we
think too routine, contacts with an immense range of outside
experts. And we intended to continue that.

We deal with them routinely.

We keep these things up. And we find them to be of
immense value.

A. there are ideas outside the Community. There are
thoughts. Secondly, even when there are not, sometimes the
best way to steel your product is to submit it to the heaviest
criticism you know you are going to get. And we know of
places where we can send our products where we know what the
criticism is going to be and we'll say take your best shot.
Maybe you'll find flaws in the analysis. Or we're too close
to it.

So --
SENATOR BRADLEY: You mean you know what the criticism is
going to be?

MR. MACEACHIN: Sure.

SENATOR BRADLEY: You send it to the right and they'll
say you're too soft --

MR. MACEACHIN: I know someone who, for example, on any
military analysis that we have where I can send it and he will
nail all the analyses and when he fails on that he'll tell me
all the evidence is Moskrovka disinformation.

But, if I find him reduced to that, I know I've got a
pretty good paper.

Now, the problem for the coming year is going to be less
a collection problem and it's going to be less a problem of
trying to get other provocative ideas. The problem is going
to be getting at the real analytical questions and getting the
evidence together and trying to see what it means and to
articulate what it means.

As I've said before, we just have to get away from or get
beyond political social abstractions. The biggest questions
as I'm sure you are aware, are: is Gorbachev for real? "All
I've heard are words, no deeds. I haven't seen anything yet."
All right.

Well, true, we haven't seen anything yet. It's hard to
see things and maybe some material things haven't moved yet.
But we're going to have to decide what does real, quote,
unquote, mean. What are the signs of this real change.

We have to look at alternatives and explore those alternatives. Again, I have found that the best way to deal with people who have a particular bias is not to dismiss their view but rather do the best you can to substantiate it. And then show that person, well we looked at this alternative.

We had a group of academics in recently and just did a quick look at alternative futures and got their views on whether Gorbachev would consolidate power, would be accommodate, would there be political change, and would he be ousted. Just for what it is worth, that group of five or six came out with twenty-five percent chance that he would consolidate power and be able to proceed on his agenda. Forty-five percent chance he would have to accommodate. And I think that leaves me what, thirty percent chance that there would be a political change and he would actually leave office in the next few years.

We -- don't see too much prospect of getting more analysts as I've said. So, quite honestly, I and my colleagues are -- now that we are over or part way through certain administrative issues having to do with an election year -- going to be looking at any changes we may have to make in the way we allocate our analytical core.

What are the questions that are going to be more pressing, require more effort. Where can we do some contracts
-- external support -- in areas of kind of a maintenance sort.

But it really comes down to this question of, yes, collection, and technical collection as well as human source. I think maybe we may be getting some advances in this.

There are some programs ahead which are going to help us very much on the military front.

SENATOR BRADLEY: Right.

MR. MACEACHIN: But it takes us down to whether Gorbachev is really reconstructing or retooling plants from military hardware to civilian hardware?

Today, I have a five hundred thousand person cut -- a half a million -- a ten percent cut -- in armed services manpower announced. Where is that cut going to be? Is that cut going to be in Ministry of Defense support troops? Is that cut going to be in the kinds of forces with both constitute part of the combat threat and which draw heavily on resources? That is, if there are some cuts in the numbers of active divisions not only does that reduce some of the force, but that reduces, from Gorbachev's standpoint, some of the forces that have to be equipped.

And I guess my bottom line is this: that people are continually telling us that there is an answer out there, that -- we are stuck with this -- there's an answer by going off and getting new analytical input from here, spending some money to get some collection there. That will all help.
But the truth of the matter is that there isn't any easy way. We're going to have to do our work, continue to try and improve the analysis. Continue to confront the tough questions. And ultimately the questions -- I mean the importance of this for the United States is monumental. If the Soviet Union in the year 2010 is not the kind of military threat that has driven so much of what we have confronted for the past three our four decades, what will it be?

I'll give you another example. I think I may have said this last session. If I didn't, I have said it at the management conference. That I saw to salient events coming ahead. One was going to be sooner. I thought that within the next year or so that Deng Xiaoping and Gorbachev would shake hands somewhere. And that now looks like it may come true even sooner.

This will have an immense political resonance. And the way that the perception of this event affect behavior in place like Japan and Europe is going to be very important to the United States policy. It could also be very important to the way the Soviets disperse resources to military forces in the Far Eastern theater. It could be very important in the way the USSR is perceived in Manila.

The second event, a little further down the road, one which seems to have even of greater hurdles is Europe 92. And therein is a good case, if the Soviet Union -- and perhaps
because the Soviet Union -- is a less apparent, less
demonstratable military threat, the role of the Soviet Union
in the equation of the United States, Europe and the East may
be greater, not less, facing an economically integrated Europe
because the attitudes of the Europeans towards the Soviet
Union are going to be immensely affected by their perceptions,
if it stands up, of a changing U.S.S.R.
So I don't -- I guess I see that the intelligence --
SENATOR BRADLEY: So their attitudes will change and that
means what?
MR. MACEACHIN: They may engage the Soviet Union, they
may engage East Europe in quite a different way and may be
less susceptible to the U.S. desires if they no longer see the
military threat in the same dimensions. And, therefore,
putting it bluntly, may feel less need to please the U.S. in
order to sustain a relationship which has had largely security
as its glue.
SENATOR BRADLEY: Right.
MR. MACEACHIN: That's exactly the strategy advocated by
the theoreticians mentioned earlier.
SENATOR BRADLEY: Yes. well, that's very -- I find it is
very provocative because I've sensed aspects of that over the
last year and half talking to a lot of Europeans.
And I've talked to a lot of Europeans about what
Gorbachev means and basically they've said what Gorbachev is
playing is a Socialist with a human face. In other words, human Socialism. Right? And the question is what’s the idea that you’re playing? And the answer that you’re giving me is, well, you know, maybe the Soviet theoreticians are right in their analysis that the Europeans aren’t attached to any idea, they’re simply used to a military and a paternal or protective relationship.

MR. MACEACHIN: Well, I guess what I would also say is maybe that the challenge for our policy is going to be to demonstrate that there is more to this Western alliance than a security arrangement.

SENATOR BRADLEY: Yes.

MR. MACEACHIN: And that’s where it seems to me --

SENATOR BRADLEY: Now, 1992, how does that fit into this?

MR. MACEACHIN: Well, I’m just thinking that if you --

SENATOR BRADLEY: Specifically. I mean, you know, you are saying that this is just another step along the road to European self identity --

MR. MACEACHIN: Yes.

SENATOR BRADLEY: -- and therefore because there’s going to be a more integrated market, they might say, well we want to go our way in our relations with the Soviet Union.

Well does that also imply we don’t need your troops?

MR. BLACKWELL: Probably not.

MR. MACEACHIN: Probably not. But it is liable to mean
that our exhortations for budgets and commitments on programs will have less force.

MR. BLACKWELL: Of course that's going to be true in our own country as well. If the threat is either perceived to be less or in fact is less, it can't help but have resonance in terms of the question of much is enough in Europe and there and in many other places. The facts will differ.

MR. MACEACHIN: The simple non answer I think to your question, Senator Bradley, is and this is again a purely personal sense that, you know, I've been grinding away as all of us have on this Soviet problem twenty years or more, and the dimensions have changed in ways that we can describe when we describe the Soviet Union itself.

But I get a greater sense, a sense that there are very large important things having to do with international economic relations, political relations, and national objectives that I guess, being fully engaged in the Soviet problem, that we haven't had a chance to think about and to articulate, but they are clearly there. And it seems to me that being able to ferret them out as to how the Soviet Union is developing and how it will play into this is the real analytical challenge that intelligence faces in the 1990s.

MR. BLACKWELL: What little part I saw of Gorbachev's speech certainly was very much playing to the notion about world trends that are independent of ideology and alliance and
all of the other things. And how his country at least is trying to get in sync with that.

I mean, that's the whole face -- that's all of the Shevardnadze stuff that's been in his speeches but Gorbachev's approach at the U.N. really reflected it as well.

MR. MACCHIN: Come back to one of your questions. If suddenly there is an upheaval of the USSR and Gorbachev is out and we're going to cast aside Perestroika and all of these things, what does that mean?

In some respects, that's the least interesting question.

SENATOR BRADLEY: Yes.

MR. MACCHIN: Because we know how to handle that.

SENATOR BRADLEY: And you bring the books out and --

MR. MACCHIN: That's exactly my point. If he -- most of the people will try to settle on a middle road that says he muddles along. It's less bad but it's still the same old Soviet Union.

That's kind of interesting --

SENATOR BRADLEY: Well how do you get people to really think about the other more radical alternative that indeed the "new thinking" strategy is playing out and the military is less significant and they've decided that they are truly not vulnerable and therefore they don't see any reason to appear vulnerable? Appear hostile?

MR. MACCHIN: Well --
SENATOR BRADLEY: Let's say that he follows this next year with another 500,000 and let's say, you know -- at what point are you able to say this is really an irrevocable point? You made -- you said earlier, you think if it gets to a certain level that even if he goes, that the momentum of the reduction of military will have been so deep that he can't reverse it. So the question is really well when is that point? Where is that point in time and in amount?

MR. MACEACHIN: This will probably be a cop out. This is a question which is --

MR. BLACKWELL: Probably should be.

MR. MACEACHIN: Well, I've always been a fool who rushed in but -- I don't think we're going to define it as a point. And the analogy I've used is when you are on the top of the mountain, it looks like you're on flat territory. When are we there?

I had lunch with an academic specialist a few months and he made an interesting point that we keep saying, well, the real test for Gorbachev is going to be here. Well, he passed that one. But then the real test is going to be there. And he passes that one. And this professor's comment was when are we going to say that Gorbachev has passed the test? When he abolishes the armed forces?

If Gorbachev makes these cuts, and if he makes them as I think he will, frankly, at least some of them in visible,
definable combat forces -- if he doesn't, he's going to give up
a lot of the political benefits that would accrue to this --
then if he follows it up, at what point do various -- and at
what point then does Gorbachev become a more active player in
international markets. Not as a supplicant, but as a player.
At what point do the Europeans who have always seen an active
economic engagement, if it could be economically sound, as
contributing to their security.

As you have probably noticed, every time there is a
slightest thaw, the Europeans quickly move that direction.
They see it as in their economic interest if they can develop
it. And secondly, they will all tell you that an active
engaged economic relationship contributes to security by
reducing the threat.

SENATOR BRADLEY: How is it in their economic interests?

MR. MacEACHIN: Well it's not now and I think that's the
problem.

MR. ERICSON: In Western Europe's economic interest?

SENATOR BRADLEY: I mean I can't see us -- how it's in
Western Europe's economic interest.

There's a part of me that says that Europe '92 and the
tendency in Europe is to turn much more to the Soviet Union
and really going to plow a lot of resource into there. My
response to that, looking at American interests, is to be my
guest. Go right ahead. I'll focus on the Pacific, you focus
MR. ERICSON: That would be the point that I would loot at. And that is that you have a world that is much more contentious economically than a world 10 years ago in terms of a rush for technological leadership.

Where is Western Europe in this? All right. It's sort of the odd man out in many ways in struggling for world leadership.

And one of the ways I think that you demonstrate or develop that means to catch up or stay on the top technologically is by building up new business.

Where's Western Europe’s market? Is it in Japan? Not really. Is it in the United States?

One of the things that is very attractive about the Soviet Union is that it is the largest untapped market that is credit worthy.

I could envision in the year 2000 a large "European" trading block where exports to the Soviet Union, large joint ventures, etc. etc. are mutually beneficial.

I mean, it's not there today, and Doug makes a very good point. Because you got security costs and everything else.

SENATOR BRADLEY: How can it be there without -- let's take the most elementary, without some price mechanism?

MR. ERICSON: All I am suggesting is the sweep of the economic dynamics are not incompatible with the kind of the
MR. MACMAHON: They can do some things to their process which would enable -- I mean the price mechanism changes. They desperately need it -- they desperately need to make their own economic mechanism work. But they can manage to create a market for foreign producers I think without going through a full price reform.

MR. ERICSON: Senator Bradley, if you were to look at the excessive supply of Soviet natural gas. Gas that lies outside the Persian Gulf. There's economic complimantaries there that are worth exploring. In some areas of energy, some areas of co-production and just the idea of complete plants and elsewhere.

You are right, however, you can't have a full integration without price change.

MR. BLACKWELL: I don't think anyone would argue that the Soviet Union by the end of the century is going to be an economic player on the scale of Western or Northern Asian countries nor should we fear it to become one. I mean they simply -- they've got too long a road to hoe to get there.

MR. ERICSON: The issue is: is there a true, a European interest and I think there is. There is economic merit.

MR. BLACKWELL: But it is bounded because the Soviet Union really cannot be a heavy purchaser, and other than raw
materials, much of a heavy supplier economical it seems to me.

They don't have a labor pool like the Chinese do or other countries do.

**SENATOR BRADLEY:** Well I'm doing a speech tomorrow night calling for a Pacific coalition. And I tend to think that there is this problem of not being able -- and that's what the last forty minutes have been -- not to be able to get out from under the lock of past assumptions, and envision, just from a standpoint of a creative and playful mind, alternatives. I mean, that ought to be one of the central functions for you.

**MR. MacEACHIN:** Well that is what we consider to be one of our central functions. And I will say that, while life isn't easy, we've been -- we've had some success and we're going to keep hammering it.

**SENATOR BRADLEY:** I would encourage you to. And I think you are right to say that in order for you to do it productively, given the direction Gorbachev is heading, you need a broader reach. You need to figure in, well, where does Europe 92 fit in to this thing? What about -- where does China or Japan or --

**MR. MacEACHIN:** The whole north Pacific nexus.

The other thing is that we will have, lest I not sound like I'm totally off the reservation, I guess I am, all right -- is that there is this other scenario which says the Soviets use, you know, they do this as part of a means of getting
breathing space, getting their house in order so they can come back and become an even greater military threat in the next century. That's alternative that we cannot dismiss and we are going to have to treat seriously.

MR. BLACKWELL: Except their way of getting there --

MR. MacEACHIN: Well, I have personal views on it that I --

SENATOR BRADLEY: Their way of getting there makes them a different society.

MR. MacEACHIN: That's exactly right. They won't get there unless they make some changes such that when they do get there, they won't be driven by the same set of goals that they once had.

It's a complex problem and I think that the coming year or two, in fact a break in the short-term long-term -- no policy consumer is really as interested in long-term strategy as he claims. He wants to know about what's on his docket tomorrow, next week, and six months from now. If you ask them, they will tell you they want the long-range view. That's what they say. But when you start sending products down --

Now the trick for us is going to be to develop the long-range outlook, so we can keep our eye on the long-range ball, but in the short-term, it seems to me, the question for the next twelve to twenty-four months is going to drive:ight
at -- excuse me -- obviously we have a major analytical
problem in keeping up with the extremely volatile political
situation in the Soviet Union which could make all this
change. It could.

But, insofar as sort of a U.S. strategic interest is
concerned and the conceptual framework in which U.S. policy is
developed, I think the key question is, is there a real
lasting revolution under in the Soviet Union, and if so, what
direction might it take? That's our challenge.

SENATOR BRADLEY: But taking also what you have said,
your challenge isn't simply to describe aspects of that and
determine whether it is really real, but it is what is the
implication for the United States?

MR. MACEACHIN: What does it mean for us?

And much of the -- and much of it will depend upon a lot
of other structures that are only now being formed.

SENATOR BRADLEY: I mean just the very fact that
information on the Soviet Union has such a high currency and
popularity, now suits Gorbachev's purpose anyway by making him
the dominant player. And everybody's talking about him and
what's happening in his country which, if you have personal
experience with it, you say, a little bit like Nicaragua, it's
not worth all the talk.

And then you fit that into an information delivery system
to the broader population in this democracy where whatever is
said, whether it is the most well researched, thorough
analysis, the impulse — and television is the ultimate
highlight of this — always has to have the counter view.
However irresponsible it is. And unresearched.

So you get this idea that you are kind of cut adrift,
you’re not able to get your own bearings in this and he’s
always got a chance to have his view. Or a view similar to
his. Or a view that says, well, Gorbachev is really not x, y
and z. And it seems to me that that creates a problem for us
too.

MR. MacEACHIN: It comes with the territory. It goes
without saying.

MR. BLACKWELL: Competition doesn’t hurt. But a lot of
the competition is on a plane that isn’t equal. And some
people have greater access through the media and other places
that you can’t match.

But there are a couple of points that occur to me —
there are a couple of things that may be worth taking a note
of.

One, the revolution we’re talking about in the Soviet
Union — I really think it is, Gorbachev describes it that way
— bit it is really a part of — it’s a global Communist
revolution. All of those systems in one way or another are
coming up to the natural limits of the Stalinist order. The
problem for every one of them has essentially been they’ve
adopted some form of Stalinist mechanisms for running and
controlling their country, and they have come up against the
revision of the superstructure in Marxist terms. It simply is
not working in this environment. That’s one.

Two, Gorbachev for us is a discontinuity in our
understanding of Russia and the Soviet Union. Either one.
And we are having, as a community, as analysts individually,
as a government and as academics, an enormous difficulty
coming to terms with that because by what he is doing, he has
broken all of our china.

We never thought he would -- we never say him eating on
these plates before and we never thought they would or could.
So the fact that they are there is a discontinuity.

That does help you break your mind set for thinking about
the future. But you are still struggling with that past. And
it’s very tough to get over it. And then, of course, someone
keeps -- comes along and rightly says well it could still go
away.

Reform has come and gone at other times in the Soviet
Union. Alexander the Second got assassinated and you ended up
with Alexander the Third. So I mean there are all sorts of
things like that.

But nonetheless, Gorbachev is a discontinuity and it is
hard to get on top of it.

The Deputy Director has -- the third thing. The deputy
director has commissioned a kind of agency conference some
time next winter where we draw in big thinkers in a fairly
small, compact setting. Some futurologists, some from -- we
haven't even scoped it yet. But essentially big thinkers to
think about the Soviet future, ten, fifteen, twenty years from
now.

SENATOR BRADLEY: When is that?

MR. BLACKWELL: We don't have a time.

MR. MacEACHIN: We're talking around March.

MR. BLACKWELL: March. February or March some time.

SENATOR BRADLEY: Any Senatorial attendance?

MR. BLACKWELL: Yes I am sure if you ask -- I am sure if
you ask him, he'll find a way.

MR. MacEACHIN: And Bob didn't mention, we're also, next
week, doing one on political instability in the USSR.

So, this goes back to my point that I was describing -- a
situation for the intelligence analytical core has become
more complex, more challenging. And it is always interesting
for me to see people who were successful at it ten years ago
or fifteen years ago who have dropped out and came back who
say the same for me -- how much more challenging it is.

But, at the same time, I think that we have -- it has
resulted in a better analytical system, and a better product.
That may be patting ourselves on the back, but it is really
not. We probably, if left to our own devices, would have
squirreled away in Langley and done our little thing.

So this exposure, this challenge, this kind of
sensitivity has caused, I think, a better product.

Mr. Blackwell: Two pieces of product. Doug has had a
number of papers that really have tried to press the envelope
some to come out of SOVA.

I still think actually the estimate we did last year
for its time did that but if you look back at it now, it's too
conservative. Even stretching as far as we could as a
Community on whether Gorbachev in allowing for a lot, we
actually said he was real -- some people didn't want to --
but I mean we really pressed that but it was too conservative.

If you go back and do it now, you'd have to push it even
further. It's too conservative both in we didn't capture how
radical he would go and we didn't quite capture how much
disorder would be created. We acknowledged it would happen
but we didn't get its dimensions.

We're also going to do an estimate now on -- it's called
11/4, but it is essentially Soviet national security strategy
toward the West.

Basically, I don't know what all the answers will be in
the estimate and we have written it, but one of the things
you're going to find in it is we're going to use it to try to
stretch the Community's thinking so that we at least, if we do
nothing else, find out how much we disagree or agree on some things. That is, we're not going to try to reach consensus in it because it really shouldn't. There are cosmic issues on that kind of a subject. There's probably not yet revealed truth to be found.

SENATOR BRADLEY: On Soviet strategy?

MR. BLACKWELL: National strategy toward -- national security strategy toward the West. Where it's this question of breathing space, sea change.

SENATOR BRADLEY: The question of how far they are willing to go to accommodate. It's those kinds of issues. He may not know yet. But we're going to try to push those issues. And stretch them out.

SENATOR BRADLEY: What is your best, concise statement of the strategy of these theoreticians you spoke of earlier who have gained political influence.

MR. MACHEACHIN: Interestingly enough that you should ask, I thought if I advertised this paper here, you might ask. We have a draft on my desk and I think it is going to be a very good paper.

SENATOR BRADLEY: Can I get it?

MR. MACHEACHIN: Yes sir. I'd like to do a little scrubbing I told you about but we should have it out within the week or so or earliest available, a couple of weeks may be.
SENATOR BRADLEY: But basically it is as you outlined?

MR. MacEACHIN: Yes sir. In fact, the author, Gray
Hobnis, went back and studied sort of these background. It's
an interesting bit of personal history here.

[Deleted]

The enigma, or what many people say is enigma, how could
these people, some of whom have expressed such hostility
towards our society and way of life be the architects of this
new foreign policy.

Well, it's not all that strange when they see it as this
is the way to serve the best interests of the Soviet Union and
our Communist Party, the Party of Lenin. And so there is some
continuity there.

SENATOR BRADLEY: They believed that the military
industrial complex was the prime political force in the United
States?

MR. MacEACHIN: Exactly.

SENATOR BRADLEY: And believed the United relationship to
the rest of the world fundamentally flowed from the military
relationship?

So that if you were the Soviet Union, and you no longer
presented a hostile face, that would defang the threat --

MR. MacEACHIN: Well the first part of it was -- the
theories didn't quite get there that fast. And there have
been others who have taken the arguments further.
Initially, one theoritician identified that U.S. military strength and projection as the source of the U.S.'s global power and that was the strategic linchpin. That was the point at which he should attack.

What has evolved in the more recent thinking is that the way to do it is by removing the threatening image.

A piece that appeared in the Soviet Foreign Ministry Journal recently had an interesting opening, by the way. It said; how could the rest of the world not fear the USSR when we are murdering each other right here in our own country. I mean the author started right with the Stalinist image and proceeded all the way through the Third World. He even had comments to the effect that the Third World is not interested in the class struggle and in fact most of the Third World is now trying to follow the Western model.

In effect, the Western modul delivers.

SENATOR BRADLEY: Right.

MR. BLACKWELL: There is a much more --

SENATOR BRADLEY: But I don't get it. So the -- take the analysis so that he says that if the Soviet Union does not present a hostile face, what happens?

MR. MacEACHIN: That the raison d'être -- that the U.S. leverage and entire --

SENATOR BRADLEY: The West will say, why do we need all of this military? You mean the Western democracies them
selves? In other words you couldn't do this, that the public
would say I don't want to be taxed to pay for a defense budget
if there's no threat. And so what they have to do is present
an image where there appears to be not threat.

What you don't know is, is there in truth -- is he in
truth headed towards a point where there is no threat.

MR. MacEACHIN: I have an opinion but I can't prove it.

SENATOR BRADLEY: Well, you have an opinion which I
presume is the opinion of every one in the culture for the
last twenty years which is, well, we've always got to protect
so that they might be the threat. Is that your opinion?

MR. MacEACHIN: My opinion is that it is real -- that the
problems inside -- do I want to say this on the record?

SENATOR BRADLEY: You can take it off.

MR. MacEACHIN: No. My opinion is that while there may
have been some soviets who supported this restrictions and new
thinking under the belief -- and to whom it may well have been
sold -- as a means of getting around and getting the drop on
the other guy, I believe that ultimately the process itself
will become the reality.

That's my belief. And it is becoming that.

SENATOR BRADLEY: But when you say it will become
reality, what is it?

MR. MacEACHIN: That the five hundred thousand cut in
military forces is a reality and there will be more over the
next five or six years.

MR. BLACKWELL: A Soviet Union that is far less isolationist. A Soviet Union that has a much less repressive system than it had. It has much more international economic links than it had. It's basically more responsive to a normal environment than it has been. It still, in their own vision of it, would be run by the Communist party and somehow be a one party dictatorship of sorts. But it would be a damn sight different than the one they're talking about now.

I think that's what they're talking about.

SENATOR BRADLEY: So you are saying -- see one of the things that I have thought recently is that with Gorbachev's reforms, he can simply claim that there is a different kind -- there are two kinds of democracies. There's his and then there's the Western. And his is defined as secret ballot and choice within a dominant -- within one party or a Party so dominant that anything else even if it were allowed would be insignificant.

That structure, to a Mexican or to a Japanese even, is a little more familiar than a structure of multi-party contention where power shifts back and forth between parties in governance.

MR. MACEACHIN: Well, I think there will be another aspect to it.

--- SENATOR BRADLEY: Do you agree or disagree?
MR. MACEACHIN: I agree.

MR. BLACKWELL: I would agree. Although, the very fact of moving that way creates pressures to go beyond. I mean it's hard to -- it's hard for an authoritarian system to relax like that.

We're talking about the vision, not the --

MR. MACEACHIN: It's still a very Eastern culture in many ways and will not look like Western liberal democracies.

Another aspect of this, I think you'll see, and already are seeing, is that the issue of whether to support this foreign a insurrection or to deal with this foreign government will not be based on whether one is Marxist and one isn't. It will be based on sort of --

SENATOR BRADLEY: The interest.

MR. MACEACHIN: The soviet national interest. And contesting -- I think you will find there will be accommodations where the Soviet Union sees that it can gain something by accommodating some other national interest in a given situation.

That both sides -- that it's not a zero sum game.

MR. BLACKWELL: Even if we accept the vision, which I also do, being able to collapse three hundred years or so so of Western history into a couple of generations or three or four decades ain't going to be no easy achievement and you're not going to do it ten years.
MR. MacEACHIN: Could I leave a question here, if I may?

SENATOR BRADLEY: Okay.

MR. MacEACHIN: I have one that I find that will maybe illustrate much of what we talked about.

Speaking again, candidly, the INF position was designed with a careful calculation that the Soviet Union would never say yes to a zero-zero proposal like was offered. The correct calculation. That Soviet leadership wouldn't have. This one did. This one accepted a level of intrusive verification and inspection that went so far as to go beyond what we were willing to accept. This leadership accepted a program of cuts in strategic armaments in terms of the size of the cuts that were inconceivable in our minds at some earlier point.

They have -- I remember calling one of my old MBFR colleagues after the Stockholm agreement, saying when we were working on that in the 1920's did you ever in the world believe the Soviets would accept that kind of inspection? And said no. This person is not a doomsayer.

We keep hearing the question of, well, it isn't real yet. He really hasn't shown us anything yet. Okay. Now my point is, today we have announcement of five hundred thousand people being cut from the military. And is this going to contribute to the statement of maybe this is a sign that something is real? Or not?

That question will not be answerable in the next week or
It's going to be a two year program. But it serves to illustrate—here we have another piece. And yet I'm not sure we're going to be further down the line on this question than we were before the announcement was made. We're going to spend a lot of analyst hours. And make a lot of projections.

SENATOR BRADLEY: Yes.

MR. MacEACHIN: So that kind of describes the nature of the problem. Are we at this break point for something new or not? When is the point reached? And it's elusive.

SENATOR BRADLEY: But it does have—I mean your whole impulse in talking about the challenge for the defense community—the intelligence community is duplicated in the political process, in the media.

And when went to the European Command and we talked to three military officials who were in the first party to go to the inspection exercise in the Soviet Union, and these guys in part conveyed the impression to me that they were genuinely disoriented and depressed that they didn't have to use more skillful techniques to observe what they had been presented with.

Like I've trained all my life to develop all these skills in order to get into the room and you're giving me the key and saying walk in, there's an easy chair, take a look around and do you want a beer?

And that's clearly the case in the Intelligence
Community, in the political community, if you have constructed as the reason you do what you do because there is this threat, and what you are doing is protecting your family basically, and then suddenly there is not threat, you've got a reorientation. And the question is how and who and to what do you reorient?

MR. MacEACHIN: That is what Bob calls a discontinuity. It may be an early form of institutional disorientation.

And it is the -- as I say a challenge for us is to continue to, as I put it, is less in getting right and wrong answers because those answers are always one step in front of you.

SENATOR BRADLEY: Yes.

MR. MacEACHIN: It's to maintain a kind of a clear professional approach to this problem. And not to jump off the deep end and either way. And help those who have to formulate the policy and the national objectives.

SENATOR BRADLEY: Well, this has been a real good session. I appreciate it. Before you go, I just have one more less cosmic question.

Where do you see U.S. government guarantees of credits or OPIC insurance, or varieties of other things fitting into this picture?

[DELETED]

MR. ERICSON: I think that if -- you know, if you look in
the 70's, in the 70's the Soviets thought so highly of U.S. technology equipment and knowhow that they really wanted to come here for the best.

I think in the late 80's, they recognized that they can get similar or even better technology knowhow elsewhere. So they are not driven the way they were a decade and a half ago.

I think they see the United States in some ways as a "hard target" when it comes to normalizing commercial relations. And they can down a road a far piece with the West Germans, with the Italians, with the British, the Japanese. But ultimately, for some of the reasons we've talked about before, these countries look to the United States for singlas regarding trade with Moscow.

So one of the reasons for normalizaing trade with the United States is to work the "hard target" and to move us off the extreme.

A second thing that the Soviets attach to normalizing economic relations is that the signing of agreements on economic matters. I think they there as a barometer of the willingness of the United States government to accomodate them or otherwise move ahead.

[DELETED]

The political importance of such agreements is greater than the economic importance in terms of what the Soviets will do in terms of trade with the United States.
SENATOR BRADLEY: So you are saying that even with that -- without Jackson-Vanick or Stevenson, that the Soviets really would get some additional trade but not a whole lot more because people would look it and say it really doesn't make much sense? Even with credits and other things?

MR. ERICSON: In some aspects, yes. If you look at the pure economics of the deals which would be proposal.

SENATOR BRADLEY: The political significance to the Soviets of having them removed is really what they are after?

Now, the question I have is, if they are not removed, are they a significant deterrence to U.S. involvement?

MR. MacEACHIN: We're circumventing --

MR. ERICSON: What do you mean by involvement, Senator?

SENATOR BRADLEY: Well, Chevron building a big petrochemical?

MR. ERICSON: Yes. It is my view that guarantees lower the cost. But it also sends a message from the US government to the private sector not just the United States and elsewhere --

SENATOR BRADLEY: Yes but we don't guarantee Chevron's investment in Belgium?

MR. ERICSON: No. Chevron doesn't necessarily ask us. If we give them Ex-Im Bank credits they would -- that they purchased those guarantees. I mean there are guarantees that have an economic meaning to the firm. But there's also a
government "appointment" I think that is important that goes along with this.

[DELETED]

When we go back to what we talked about before taking a long-term position in the Soviet Union, I think credit guarantees serve to facilitate that.

I mean you would have to talk to the firms. But that would be my sense. Credit state, in effect that the United States Government blesses this operation it gives business some sense of confidence. [DELETED]

Sanctity of contracts is still a big issue. It's still a lingering doubt on their part. And that's an issue I think they will want to be addressed as much as Ex-Im bank credits or OPIC.

SENATOR BRADLEY: What, sanctity of contracts?

MR. ERICSON: Yes, sir.

SENATOR BRADLEY: And they were broken with the Soviets on the grain embargo.

MR. ERICSON: The embargo and the natural gas. [DELETED]

The economics are there. I'm not trying to belittle them. And I also think that the Soviets would go out of their way to sign a copule of big deals with the United States for a lot of reasons.

SENATOR BRADLEY: Wouldn't they sign the big deals absent the special --
MR. ERICSON: If they could get them. Yes sir.

SENATOR BRADLEY: But you are saying you doubt that any American firm would go into the deal?

MR. ERICSON: I would think that taking a long-term position in the Soviet Union is a tricky business. And if you look at the kinds of joint ventures you have, their short-term positions, and a lot of these deals will be funded multi-nationally. You'll have U.S. engineering expertise, West German equipment, Japanese equipment.

SENATOR BRADLEY: So then the real question at what point -- and this is back to your -- at what point along the process of reform, five hundred thousand, a million troops, price mechanism --

MR. ERICSON: Emigration.

SENATOR BRADLEY: Emigration and a variety of other things, at what point do you regard the Soviet Union like any other country in terms of economics?

MR. ERICSON: That's right.

SENATOR BRADLEY: I mean that to me seems to be the central question. Not if he does five hundred thousand, do we give them Most Favored Nation? It seems to me you would want to keep it on --

MR. ERICSON: That's their thrust. The Soviet thrust has always been to depoliticize economic relations from the West's perspective while politicizing it somewhat from their own.
But that's what they would argue. Let's separate the two.

MR. MACEachin: In fact, the long-term formulated intelligence issue --

SENATOR BRADLEY: No. They wouldn't argue. They would say separate the two? They'd say separate human rights. But they --

MR. ERICSON: Political from economics, Senator. We should do business on a purely economic basis as the normal trading goes.

SENATOR BRADLEY: But then why do they need subsidies? On a purely economic basis, they don't deserve subsidies. Either they got a good deal or they don't. Same as New Jersey investment. So this is a problem. This is a thought that I am having trouble unraveling here.

MR. ERICSON: But the subsidy issue -- talk about subsidies, right? The subsidy would be something that they would say to the West, let's say to Chevron, and they say, we have a bid -- a competing bid out of BP, British Petroleum, for the same deal. Your technologies are equal. British Petroleum's costs for the project are 15% below yours.

SENATOR BRADLEY: Right.

MR. ERICSON: It is like buying grain. That's all. We're just after the best deal. Strictly commercial terms.

SENATOR BRADLEY: Chevron cannot get the deal.

MR. ERICSON: And they would say -- Chevron would say,
gee, I can't match that, and they would say, well, that's sort of your problem. Why don't you go talk to your government.

Senator Bradley: Well, then that gets to ultimately a judgment, do you think the greatest return on investment comes in the Soviet Union or elsewhere.

Mr. Ericson: I mean, you have credit lines put in place by a Western government to encourage their firms participation. Not heavily subsidized at this point if subsidize at all -- although you have the political risk guarantees, -- [DELETED]

Senator Bradley: So that basically the view on economics is to, you know, if somebody wants to invest or trade, they can do that today. But they, as of today, can't get subsidies or guarantees to do that.

Mr. Ericson: From the United States.

Senator Bradley: From the United States. Right?

Mr. Ericson: Yes, sir.

And if you take the position that no subsidies or guarantees until the economy of the Soviet Union is reformed sufficiently that you can make money there like you can make money anywhere else without subsidies and guarantees, that is one position. The other position is if you say, well, the overall critical mass of reform, whether it is human rights, troops whatever, has reached the point where we can regard them like any other country. And then the third position would
be, say, well, let's immediately give Gorbachev a little carrot, let's immediately give him a reward for this 500,000 troop reduction. Would you argue that -- I mean, those are three positions.

MR. ERICSON: When you talk about profits in the absence of guarantees, I am not -- not sure what that --

SENATOR BRADLEY: Well, New Jersey pizza company goes to Moscow and opens up a pizza. Pepsi Cola has been there for a generation. They obviously are figuring that they are making money, unless --

MR. ERICSON: Well, some. You lower the cost to the firm to compete. What Pepsi Cola will tell you, what farmers will tell you, is that we can't compete on world markets because other countries are providing export credits to the Soviet Union. If I play the Soviet Union part, I would say to the United States, you provide export guarantees to the following -- 75 exports to the follow 80 countries, all right.

SENATOR BRADLEY: Right.

MR. ERICSON: If a U.S. exporter wants to export to Brazil, he can apply for Ex-Im Bank credit and guarantees for political risk.

MR. DESPRES: Friendly developing countries.

MR. ERICSON: And the Soviet Union would say we want normal access. We don't want to be treated special one way or the other. So his report is, you're saying for this to be
special treatment, it's not. It is treatment that is accorded
by Ex-Im Bank to most of the countries in the world. That
would be his argument.

SENATOR BRADLEY: That is his argument.

That is directly joined on the grain question.
Australian journalists, I said we don't want any subsidies,
and he said does that mean you're taking on export subsidies
worldwide? To which I had to say logically yes, unless I was
going to say, well, no, because the Soviet Union is a special
case.

Okay, while we're proceeding down this read, thanks for
this diversion and thanks for this session. I appreciate it
very much.

(Thereupon, at 1:15 o'clock p.m., the Task Force briefing
was concluded).