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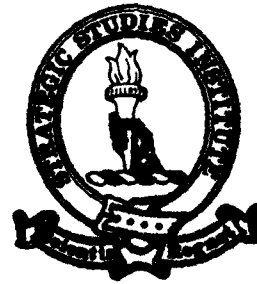
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AD-A222 677

ECONOMIC PERESTROIKA:  
THE CONSEQUENCES OF SUCCESS

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**by**

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**30 April 1990**

## NOTE

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## FOREWORD

This report examines economic perestroika and the consequences of a successful Soviet economic transformation on U.S. security interests. The study is organized into three major sections:

- The domestic criteria for the success of economic reforms in the Soviet Union. These include an assessment of the major obstacles to success.
- The international criteria for success, including an assessment of Gorbachev's national strategy which has dramatically transformed the international system to create conditions necessary for the success of an economic revolution at home.
- The consequences of success in the short and long term. (SDU) AT

The authors conclude that in the short term, Soviet interests dictate the preservation of a cooperative, economically integrated international order that supports economic perestroika. These same interests could prevail over the long term, but two undesirable outcomes are also possible—a reconstituted technological base and assertive military or, at the other extreme, total failure and systemic collapse accompanied by accelerating violence and divisive tendencies within the USSR.

Either could present the United States with novel and unforeseen challenges. This means that responding to a technologically revived Soviet military requires significantly different measures than those needed to confront the pressures resulting from a breakdown of authority and potential civil war or revolution. We are in the early phases of a profound international revolution whose final phase cannot be predicted. Nevertheless, the authors believe that systemic collapse and political instability throughout the Soviet Union are more likely than successful perestroika in the next 10-15 years. We

should, therefore, aim for capabilities that afford us maximum flexibility in our overall security planning.

In its most threatening form, Soviet domestic volatility may produce a siege mentality that seeks relief or diversion beyond Soviet borders. These threats and their counterparts in Eastern Europe can be contained or even deterred through a continued American presence that provides both symbol and substance to a continuing American guarantee to the security of its European allies.



PAUL G. CERJAN  
Major General, U.S. Army  
Commandant

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## **ECONOMIC PERESTROIKA: THE CONSEQUENCES OF SUCCESS**

The future of Soviet superpower status depends on its leaders' ability to solve the country's severe economic problems. So fundamental are the Soviets' economic troubles that the shift to internal problems is not a transient one, with an invigorated, "leaner and meaner" superpower emerging after only a few years. The USSR's period of introversion and domestic volatility will last much longer.

The Gorbachev revolution is not unique in Russian history. Russia has always lagged behind economic developments in the West and periodically has made extensive efforts to catch up. Today, much like Peter the Great in the 17th century, Soviet leaders are searching for new economic models, technology, and resources to reverse the legacies of communism and Russian history. If perestroika succeeds, a "new" Soviet state will emerge with substantial internal changes, and it will emerge into a fundamentally altered European political and economic environment. This study looks ahead 10 years and beyond in an attempt to assess what interim domestic and international changes will be in progress if perestroika is successful and what the consequences of success may be for Western security interests.

### **Internal Criteria for Success.**

What would constitute a definition or criteria for the success of perestroika by the end of the century? By perestroika we mean the economic dimension of Gorbachev's program to reinvigorate all of Soviet society and make it economically competitive as a great power. Political success will be vital to Gorbachev's economic success. It is obvious that for the economy to function, a condition of civil peace, a recognizable, stable system of laws commanding popular support, and a



government whose authority and competence are generally unquestioned are all necessary.

At present, the ultimate resolution of political issues cannot be stated with any degree of certainty but we can identify the problems impinging on Soviet capabilities for superpower economic-technological and, hence, military competitiveness.

For our purposes, it suffices to enumerate political preconditions for successfully stabilizing and deepening the reform process to the point where economic development is pointing upwards across the board. These are:

- Gorbachev, or his designated successor, in control of a political process that enjoys both authentic popular support and participation.
- Substantial degradation of the CPSU's monopoly over personnel, production, and distribution.
- Some, as yet unrealized form of multiparty participation in politics and policy through an accepted mechanism or series of legal procedures.
- Substantial privatization of the means of production and distribution and market responsive prices for all goods and services. The latter is a political as well as economic criterion because it and the foregoing conditions imply the end of centralized planning as the mechanism by which party controls over resources and policies were manifested and implemented.
- Legal guarantees for the sanctity of property, contract, and the means by which ultimate executive and legislative power are allocated. This means a law-governed society, along with civil and political rights of the individual.
- A reconstituted legal-political-constitutional basis of the multiethnic empire whose territorial boundaries are

impossible to foresee today but whose optimum condition would be the continuation of the present structure on a new, accepted confederal or genuinely federal basis.

- Civilian control over the military and the diminution of the KGB's role in society.
- Replacement of the top-heavy ministerial bureaucracy that oversees the economy by diverse private and public forces whose precise configuration is as yet unclear.
- In the international sphere, peace with both the United States and Europe on the one hand and China and Japan on the other.
- The previous condition presupposes and reinforces the crucial one of a stable economic relationship with these states enabling Moscow to buy and sell, and obtain technology and other goods and services on the basis of a relatively open international economy.

These are prior political conditions necessary for the stable functioning of the framework wherein the Soviet economy must operate to be considered as being on the road to success by the millenium. In more narrowly economic terms there are obvious economic criteria for a successful resolution of current crises. These are:

- Reduction or termination of the Soviet budget deficit.
- Deceleration of the spiraling rate of inflation. This will be difficult, perhaps impossible in the near term, because prices will have to be decontrolled to reflect real value.
- Elimination of the so-called ruble overhang (large numbers of rubles in citizens' hands which are not being used for productive purposes) by provision to the public of a high and stable volume of valued goods and services.

- Stabilization and convertibility of the ruble on the world market, a move that would give both Soviets and foreigners confidence in the currency's and the country's stability, and the possibility of repatriating profits thereby from foreign business operations.
- A functioning legal framework for the protection of both indigenous and foreign businesses inside the USSR. In practice, this will mean putting an end to the bureaucratic warfare that denies private enterprise equal access to materials, distribution and markets.
- A functioning and relatively stable mechanism for the transfer of state of the art or at least modern technology and information systems from East to West and vice versa.
- Increasing competitiveness of Soviet-made products and technologies on the world market as exportable goods earning hard currency.
- Increased Soviet rates of productivity growth.
- Annual growth rates (GNP) of about 3 percent annually after inflation. This figure is a minimum for real growth.
- A measurably higher quality of life, including reduction of pollution and health crises.
- Continued domestic economic integration of the USSR, but by mutual cooperation.

These would be major indicators of a successful resolution of current problems. They do not need to be made literally by the year 2000, but rather visible and measurable progress towards their achievement must be in sight at home and abroad for both observers and the Soviet people, as a whole, to accept the judgment of ultimate success. For military purposes success would mean an overall qualitative improvement of Soviet global and space military capability based on a stable

access to high technology systems, both platforms and informational systems, and a comparably trained military capable of handling these systems. Success here would also entail a successful resolution of the problems associated with logistical stockpiling and sustainability of military and military-related systems. In other terms, success would be visible in the construction of a durable and competitive broad-based technological infrastructure because current Soviet definitions of victory and criteria for military success lay special stress on that area. They also observe that today, in contrast to previous periods, the decisive movement is from civilian development to spin-offs for military use not vice versa.

Needless to say, the obstacles and the stakes are enormous. First, Gorbachev has just succeeded in breaching the wall of the Nomenklatura (the bureaucracy and the means of controlling its personnel) and this will undoubtedly spiral into a devolution of centralized economic power by the party and ministries. But the current 5-year plan is in direct contradiction to the spirit of reform. It preserves the current planning mechanism for the next 2 years at a minimum, and severely limits the entrepreneurial freedom of cooperatives as well as the prospects for Western economic penetration of the Soviet economy or free Soviet export abroad. The plan entails severely deflationary policies to stabilize the ruble in advance of its convertibility but does nothing to facilitate that convertibility. Its emphasis on provision of consumer goods and services will not, in the absence of a market standard of competitive quality, be likely to alleviate consumer and technology shortages.

Second, it is by no means clear that Soviet leaders understand (or else understand too well) what it means to let go of the economy and move towards marketization. Instinctively, they still think and speak like central managers, even though they sense the need for thorough-going reform. A third problem is that there are also several potentially powerful institutional lobbies, trade unions, and economic nationalists who may well oppose the moves towards freedom

on the ground that their economic position would be further undermined.

Another obstacle, equally consequential, also looms large in the background. Failure to move forward quickly on reform negates the possibility of large-scale Western capital and technology flows to the USSR. Like other states, the USSR must compete in an extremely demanding international environment for the acquisition of scarce economic goods, capital, technology, know-how. To obtain them it will have to produce a more favorable and stable climate for investors or traders than do its rivals. Soviet leaders are acutely aware of the reciprocity between domestic and international success but if they cannot stabilize their domestic base the rest of the world will not want to invest in it.

The fifth potential obstacle is the traditional military domination of the economy. It is well known that the military has until now extended its grasp into large-scale civilian production of goods needed for wartime as well as for peacetime industries. This system has enabled the military to gin up quickly for wartime production but it has also exacted a price upon civilian industry. Because of its commanding position the military is under intense and accelerating pressure to convert more of its plant capacity to production for the civilian sector.

But, precisely because of its strong position relative to other actors in the economy with respect to quality of production in both military and civilian sectors, the possibility exists that military industry will be able to dominate to a disproportionate degree East-West commercial and technological interchanges. Even at reduced levels of force strength, the military-industrial complex of the USSR occupies a position from which it could not only command high quality production, it also access exports, imports, and foreign technology and currency. This would make it the dominant sector of a revived Soviet economy, even if purely military spending is relatively less. The military-industrial complex (or military economy as it is professionally known there) could become both a

monopolistic seller or buyer and provide, on its own, the broad civilian-based technological production we have stipulated as being necessary for the Soviet economy in the year 2000. This could be done by having ostensible civilian control that masks the real power of the military.

Such an outcome would, in itself, testify to the failure to prevent political regression towards powerful and even authoritarian interest groups. Indeed, as we have noted above, in the Soviet system more than elsewhere, the success of economic reform depends on prior and steady political reform to create the necessary environment for the successful conduct of entrepreneurial and commercial activity. Political reform, as it were, clears the minefields barring economic progress which can then, to continue the military metaphor, strengthen the rear and funnel reinforcements to the mine clearers up ahead. Consequently, failure to provide an adequate basis for the political and constitutional restructuring of the USSR (and by constitutional we mean the term in the European sense—not a document as such but a series of statutes specifying the forces that constitute the government and the legal demarcation of the political powers each organ has) would substantially compromise the future success of economic reform.

Such failures would possibly come about as a result of escalating or persisting ethnic violence and failure to devise alternative laws and institutions to occupy the party's former position. Alternatively, failure of Gorbachev to maintain power or for his chosen successor to do so and the rise of an antireform coalition, perhaps based on military-worker, chauvinist elites could provide another example of failure.

Finally, there are many intermediate positions of partial success along the lines sketched out here that could ensue with a kind of muddling through to the next phase or alternatively to the rise of an anti-Western international coalition joined if not led by Moscow. This, however, seems unlikely as long as the Gorbachev strategy remains heavily dependent on access to Western technology, trade and

economic assistance. For this reason, the internal criteria for success are directly linked to the external conditions that must be institutionalized before economic perestroika becomes a reality.

### **External Conditions Necessary for Perestroika.**

It was not by accident that Gorbachev devoted nearly half of his landmark book, *Perestroika*, to the topic he called "new thinking" in international affairs. The Gorbachev strategy was clear in the early stages of perestroika. The Soviet Union had to dramatically transform the international atmosphere to create the conditions necessary for the success of an economic revolution at home. What was the essence of this "new thinking" and the international situation which he wished to redefine?

The main ingredients of "new thinking," as they have been standardized in contemporary Soviet literature, consist of five points:

- War, neither nuclear nor conventional, can be used to achieve political objectives.
- To survive, mankind must rid the world of nuclear and other weapons of mass destruction.
- Security in the nuclear age can only be mutual and universal, ensured by political means.
- International relations should not be restricted by differing social systems or ideologies.
- Current security is guaranteed by the maintenance of reasonable sufficiency and mutually defensive postures between NATO and the Warsaw Pact and between the United States and USSR.

What are the domestic economic ramifications of these positions in international relations? First, they set the stage for

a significant expansion of discretionary resources within the USSR which can be transferred from defense expenditures to the civilian sector of the economy. Second, they create an atmosphere within which the Soviets may be given far greater access to Western high technology and the credits necessary to apply that technology in the Soviet Union. Third, they allow the Soviet Union to redefine its relationship with other socialist nations in ways which reduce the drain on the Soviet economy (particularly in terms of their Third World clients). Finally, they reduce the antagonisms which have long existed among the USSR and prospective Western trading partners and the powerful international trade organizations which the Western nations control. Explicitly, Gorbachev has drawn the link between disarmament and cooperative economic development. He joins those who argue that a prosperous Soviet Union is a peaceful Soviet Union which is tied to the larger European community.

Within this broad foreign policy framework, what specifically does Gorbachev need from other nations to make domestic perestroika feasible? First, he needs peace. Peace, not only in the absence of armed conflict, but peace in the sense that he can rationally persuade his domestic constituents that significant transfers of assets away from the defense sector will not endanger Soviet security. This means the approval of international arms control agreements on strategic weapons and conventional forces in Europe. For the Soviets, this is far more than a budgetary exercise. A sense of "peace" will allow Gorbachev to transfer the work of large elements of the Academy of Sciences and the best design bureaus in the USSR to problems of commercial modernization. It has already allowed him to start the process of transferring hundreds of thousands of skilled workers from the military to civilian industry.

Second, Gorbachev needs a much more open access to Western markets. He needs to create a climate which relaxes the strict import restrictions on Western high technology, which cause the Soviets to rely so heavily on the economic acquisition programs of the KGB. This modernization by



espionage has been economically expensive and most uneven in its success.

Even granted access, he needs to be granted a significant line of credit, both because of the current economic distress of the USSR and the fact that the ruble remains a nonconvertible currency. He needs a major expansion in joint ventures, both for the consumer goods and technology which they offer and for the models they represent for his own industry to move it closer to world-level quality of production. This change in atmosphere offers equal benefits in allowing Soviet scientists and engineers much freer access to colleagues and facilities in the West in order to help close the significant gap that has developed between East and West during the information revolution.

Personal access to the West by large numbers of scientists and engineers complements Gorbachev's domestic program of glasnost in helping define the standard against which Soviet production will be measured in the world market. One of the great weaknesses of previous policies of economic autarky, either within the USSR or COMECON, has been the absence of a standard of quality which is essential to survival in the open global market. Another weakness of autarky which is overcome by this greater access is an appreciation of value. All economists agree that the Soviets desperately need a price reform which will cause prices to accurately reflect demand and relative scarcity. The artificial subsidized price structure of the Soviet Union can only be rationalized through exposure to the market economies of the world.

Third, the Soviet Union needs an honorable way to escape from the demands on its resources forced upon it by its previous foreign policies. Proletarian internationalism, as interpreted by previous Soviet regimes, caused the Soviets to rush to the aid of diverse national groups fighting for "liberation." The Soviets have been forced to disproportionately invest their scarce hard currency resources in liberation movements in the Third World from Afghanistan and Ethiopia to Angola and Nicaragua. The Brezhnev Doctrine caused

considerable economic investment in maintaining the empire which the Soviets had acquired. The external condition necessary for successful domestic perestroika is to be free of these foreign demands, at least at the level to which they had grown in the past two decades.

Finally, Gorbachev needs the tolerance and support of the industrialized world as he deals with the serious internal crises which have emerged and will continue to emerge as a result of the trauma of this dramatic transformation. While Western states will continue to set definite parameters of what actions are tolerable in civilized society, which rules out many of the actions of his predecessors, Gorbachev's survival and that of his programs require a relief from the antagonistic relationships of the days of the "evil empire" in which the Soviets were subject to continued criticism for actions real or perceived. He is walking a very narrow line in pushing his own society in ways in which the West generally approves and he is proceeding at a pace which none of his critics thought possible. His international prestige and the visible material support which it has provided remain the final external conditions for his attempt at success. What success might bring to Soviet-American relations is a major question for long-range defense planning and budgeting.

### **The Consequences of Success.**

The political preconditions for the success of economic reform set forth earlier in this report and the accompanying economic criteria for success constitute an undertaking of grand scale that likely will absorb the attention and energies of the Soviet Union for the foreseeable future. Whether or not the Soviet Union will succeed in its reform efforts remains very much open to question, although recent steps such as the proposed changes to laws on land use and factory ownership are first steps in what must be a systemic reform. For this portion of this report, let us assume, first, that the Soviets undertake the "correct" package of political and economic reforms and, second, that they are successful in their reform efforts.<sup>1</sup> A second assumption must be that either Mikhail

Gorbachev or an individual of similar views will remain as Soviet leader long enough to institutionalize the political preconditions and economic criteria necessary to success.

The seriousness of the problems currently facing the Soviet Union in the economic realm, budget deficits, low productivity, technological obsolescence, serious shortcomings in agriculture, to name but a few, will entail an effort of at least one decade—and possibly as long as two or three generations—to “solve.” In the interim, the Soviets will have to be satisfied with varying degrees of progress, which at times may come to a temporary halt or suffer even temporary setbacks. Recognizing that this process will take a lengthy period, it is necessary to consider implications for the United States and the world at large in both the short and long terms.

*Short-term Implications.* In the short term, which we must define as a period extending 10-20 years, the Soviets will be preoccupied with the realization of both the political preconditions and economic criteria for success. This process will be fraught with risk, as rising political and economic expectations are met—or not met—to varying degrees.<sup>2</sup>

The most serious political challenge faced by the Soviet leadership for the foreseeable future is the centrifugal political forces inherent in the varied populations of the 14 predominantly non-Russian republics.<sup>3</sup> In East Europe, political change came very rapidly once it became clear that Soviet forces would not be employed to keep the existing regimes in power. The prospect of a similar departure by the “inner empire” of the Soviet republics obviously cannot be regarded with the same air of benevolence exhibited by the Soviets during the last months of 1989. Indeed, Moscow’s use of violent force in Azerbaijan in early 1990 and its actions in Lithuania can be regarded as a demonstration of Moscow’s intent to—at least for the present—keep the Soviet Union intact.<sup>4</sup> However, Moscow will have to exercise restraint so as not to undermine the process of political reform and access to the West. Herein lies a dilemma for the Soviet leadership: the political preconditions for economic reform entail a significant

degree of loosening of Moscow's authority. Moscow has no handbook outlining just where to draw the line on these centrifugal tendencies without stifling incentives for greater political and economic initiative. In the case of the Lithuanian declaration of independence, Gorbachev has chosen to use political pressure, claims for economic reparations, and selective application of force in lieu of massive coercive military action—at least for the present. Whether this measure of relative restraint would be possible in the face of efforts by several republics to leave the USSR is very much open to question.

Economically, the Soviets face several challenges of the same magnitude. Realization of the economic criteria for success will entail a preoccupation with internal economic development, which will be very expensive and will challenge the historical preeminence of the Soviet military in the competition for human and material resources. Nonetheless, the Soviets likely will choose to sacrifice short-term military capabilities to provide the foundation for long-term military potential. Successful economic development also will require vast amounts of Western economic assistance and loans and relatively unobstructed access to Western technology.<sup>5</sup> The Soviet Union must undertake a variety of programs to develop the society's infrastructures in the educational, medical, transportation, commercial, and business sectors. All this is capable of consuming the attention of the entire Soviet Union for this short-term period.

The implications for the United States and the West in the short term at first glance are relatively benign. A Soviet preoccupation with domestic restructuring already is leading to the effective dissolution of their empire and multilateral security arrangements in East Europe—and the reform effort in the Soviet Union barely has begun. It is likely that over the next 10 or 20 years we will see major cuts in Soviet conventional forces in an effort to reduce military expenditures and shift priority of efforts away from the military.

The number of ground forces divisions will shrink dramatically, and Soviet arms production will decline. However, as Soviet conventional forces decline quantitatively, they probably will improve qualitatively as a larger proportion are equipped with more modern weapons and equipment. A smaller Soviet Army likely will have a higher proportion of career (vs. conscript) personnel. Additionally, going to a significantly smaller army will make the Soviets less dependent on the rapidly-growing Central Asian portion of the pool of draft-age males.

In the strategic arms arena, the Soviets will engage the United States in arms control, but they also will continue research and development efforts in a wide array of technologies as a hedge against any Western breakthrough. We must bear in mind, however, that the possession of a large nuclear arsenal is a key measure of the Soviets' superpower status. As such, there likely will be significant resistance in the Soviet Union to strategic arms cuts that even approach elimination of these weapons.

Shifting attention away from the military arena, the Soviet Union, if successful in economic reform, will seek to become an economic competitor with Japan, Germany, and the United States in trade with Europe (East and West) and much of the Third World. The Soviets will be in a very good position in this regard, due in no small part to their vast store of natural resources in the underdeveloped Soviet Far East.

In summary, over the short term—if our initial assumptions remain valid—the Soviet Union is likely to be a largely cooperative actor on the world stage so long as the Soviet leadership perceives no significant external threat to its security. There will be a preoccupation with domestic political and economic reform, the achievement of which will partially depend upon Western technological and economic assistance. The Soviet armed forces likely will adopt a “defensive doctrine” and will shrink significantly from their present size. However, the Soviets will continue to fund a wide array of military research and development projects as a hedge against

surprise and to provide the basis for future military capabilities. Political developments may or may not lead to a significantly altered and more pluralistic political system in Soviet society, with varying degrees of political autonomy for the former Union Republics while all remain in relatively close economic union.

*Long-term Implications.* Assuming success in efforts to restructure Soviet society economically, the Soviet Union will be in a much stronger position 10-20 years from now. The new economic vitality will serve to satisfy consumer needs, make the Soviet Union an important actor in the world economy, and provide the foundation for significantly enhanced military capabilities. Because of this, the long-term security implications of Soviet economic success are less clear, depending on how the Soviet political culture evolves.

If Soviet society evolves along pluralistic lines and seeks to maintain a very high level of cultural and technological interchange with the West, the likelihood of a return to an aggressive and ideologically-driven foreign policy will be significantly diminished. For Soviet society to evolve into a relatively democratic model, there will have to have been a significant reduction in the authoritarian structures in the society. This likely would lead to a significant reduction in the ability of the leadership to mobilize the society absent a clear and imminent threat to vital interests. We must anticipate that even a democratic, pluralistic, and multinational Soviet Union will vigorously defend its state interests, but those interests—beyond territorial integrity and noninterference in domestic affairs—likely will be drawn modestly, although not minimally.

There is, however, a far less benign alternative. Let us assume for a moment that political change has been less dramatic than proposed earlier, and, although more democratic than the Soviet Union we have known over the past 70 years, the country remains largely authoritarian—although not quite totalitarian. Let us assume also that there have been very positive achievements in terms of economic reform. The economy is robust and has shown clear progress in satisfying

the economic needs of the population. There is vigorous trade with the West, the major economic powers of the Pacific Rim, and much of the Third World. The Soviet Union and Germany are the major economic powers of Europe, and we must bear in mind that the Soviet Union resides across the breadth of Eurasia.

With this picture of the Soviet Union, we can postulate a country 20 to 30 years from now, having a relatively efficient, technologically advanced, and competitive economy, capable of either engaging in economic warfare with its perceived competitors or turning its economic potential to the regeneration of a relatively large, modern military establishment possessing a broad range of capabilities with which to coerce neighbors and distant powers. The major detractor from this outcome, however, remains the disparate loyalties and objectives of the over 100 nationalities residing in the Soviet Union.

The Soviets also must address another aspect to the nationalities dilemma. Anti-Soviet and anti-Russian sentiments are widespread through the non-Russian republics; some of these sentiments predate the Soviet era, having their roots in Russian conquest and domination in the Tsarist era. A virulent strain of Russian nationalism and chauvinism also looks down on the other nationalities and races and perceives Western influences to be "corrupting of the Russian soul." Should there be widespread calls for and unilateral moves towards national independence by the other nationalities, this Russian nationalism likely will be intensified via a siege mentality; this would further complicate the relationships between the largely Russian Soviet leadership and many of the nationalities. It also could increase Russian xenophobia in its foreign affairs.

If the Soviet leadership fails to react to moves towards independence by various nationalities, it will signal to other disaffected nationalities that it is acceptable to initiate and follow through on independence plans. Absent a prompt and decisive conservative reaction, this could lead to a relatively

prompt disintegration of the Soviet Union, with perhaps only the three Slavic republics remaining in the Union.<sup>6</sup> Alternatively, the Soviets might react decisively to counter separatist moves, either through large-scale shows of force, widespread arrests by security services, or actual violent measures carried out by either the military or security services. Such measures would hinder the separatist movements, and they most likely would delay for an undetermined period any substantive moves towards independence. Whatever success these more drastic measures might achieve in the short term, however, they also would further exacerbate the hostility against Moscow—be it anti-Soviet or anti-Russian—that already exists. Given that this hostility has remained alive after 50 to 70 years of Soviet rule, it is not likely to abate over the next decade or two, especially in the wake of a violent Soviet crackdown on separatism.

Predicting the outcome of Soviet political and economic reform from the perspective of 1990 borders on the impossible because of the immense scope of the changes needed in the USSR and the scope of changes already being discussed. After all, who—5 years ago—would have predicted that there would be agreements for Soviet troops to be withdrawn from both Hungary and Czechoslovakia by mid-1991; or that the Berlin Wall would be an artifact of history; or that there would be a non-Communist government in Poland; or that a dissident playwright would be the President of Czechoslovakia.

This portion of the report has laid out the two extremes of the range of possible outcomes. As in most other affairs of men, the reality we shall see will fall somewhere between the extremes. The key challenges for the United States will be to: (1) retain sufficient military capabilities in the short term, while (2) ensuring that its own economy remains a strong foundation for the country to play a leading role in the world economy and provide the basis for regenerating significantly greater military capabilities to defend the nation against a resurgent Soviet Union, should that be required.



## **Conclusions.**

The indicators we have identified serve as benchmarks of the degree to which perestroika will either succeed or fail. Whatever perestroika was intended to be, it has been transformed by events of the past 2 years. Initially, the focus of economic perestroika was to achieve a production capacity which would allow the USSR to compete successfully on the world market. This program had two aspects—greater efficiency and higher quality. Both of these elements had their origins in the Brezhnev programs of the early 1980s to move the USSR from quantitative to qualitative solutions to its problems, both economic and military.

During 1989 there were dramatic changes in the political landscape which may have shifted the emphasis of perestroika away from "world level of competitiveness" to programs which would provide relief from acute political problems at three distinct levels. At the lowest level, the Soviet consumer finally arose from lethargy after 4 years of attempted perestroika and began the familiar chant, "Where's the beef?" This was most dramatically reflected in a series of labor strikes, especially in the national coal miners work stoppage. Labor unrest is a major threat to economic perestroika, and comes at a time when Gorbachev needs to create both economic incentives and promote a work ethic. The Soviet labor force has, by and large, dropped out. An irony of history is that the Soviets have managed to reverse the Marxist promise of abundance accompanied by a withering away of the state. The state and its privileged apparatus have prospered as the people withered away in cynical disillusionment with a system that has failed to meet even their most basic needs.

At a higher level, Gorbachev recognized the need to produce economic results in perestroika to convince increasingly restless minority republics that the new economic program would provide significant benefits in continued association with the Soviet Union. On the macro level, the Soviet leadership looked at the disintegration of socialism in Eastern Europe and recognized that perestroika represented

the last hope for a nominally socialist economic system to show the capacity for survival. Representing an economically-based system, communism as a political ideology would be mortally wounded by the further economic collapse of the Soviet Union.

A worst-case scenario posited by Victor Kremenjuk is a Soviet Union that is trapped in the same political-economic trends as Germany in the 1920s. In Germany, fragile democratic institutions failed to reverse the hopeless economic conditions from which radical nationalist movements grew and seized power. A Soviet version would be a "nightmare for the Soviet Union and Europe."<sup>7</sup>

The immediate and urgent Soviet problem is, therefore, economic recovery. Soviet military forces must be reduced to finance economic reform. Skeptics in the West should not underestimate the risks this entails for Gorbachev. The Soviet Union has historically depended disproportionately on its military might for superpower status. Previous Soviet leaders have assumed the convertibility of military power to diplomatic, economic, and psychological gains consistent with Soviet desires to extend their influence. The size and sophistication of Soviet forces have been the most visible product of industrial modernization, and they have conveyed the trappings of success. In Soviet eyes, respect and authority must certainly spill over to their political and ideological claims. Gorbachev is openly challenging these sacred assumptions. Security, he has argued, and by inference superpower status, cannot rest on military power alone. Political and economic cooperation with the West is an essential part of state security in the nuclear age. The Gorbachev domestic agenda may signal a new, more cooperative phase in Soviet-American relations and ultimately a stronger, more competitive Soviet industrial base. No one can say whether a rehabilitated Soviet socioeconomic system would spawn a more assertive foreign policy or a status-quo mentality anxious to preserve the benefits of reduced tensions abroad and higher living standards at home.

Our logic suggests that Soviet national interests would be served in the preservation of a cooperative, economically

integrated international order that had aided and abetted economic perestroika. But two undesirable outcomes are also possible—a reconstituted technological base and assertive military or, at the other extreme, total failure and systemic collapse accompanied by accelerating violence and separatist tendencies within the USSR. Either could present the United States with novel and unforeseen challenges. Neither is compatible with U.S. interests. This means that responding to a technologically revived Soviet military requires significantly different measures than those needed to confront the pressures resulting from a breakdown of authority and potential civil war or revolution. We are in the early phases of a profound international revolution whose final phase cannot be predicted. Nevertheless, the authors believe that systemic collapse and political instability throughout the Soviet Union are more likely than successful perestroika in the next 10-15 years. We should, therefore, aim for capabilities that afford us maximum flexibility in our overall security planning.

In a world of uncertainty, the national strategy of the United States ultimately must rely on the patient, but long-term maintenance of credible military forces that support active political and economic initiatives to improve Soviet-American relations on all fronts. This requires both the consolidation of the revolutionary changes in Europe and a pragmatic posture towards Moscow that is supportive of evolutionary change in the Soviet internal empire, but without strident calls from Washington for the dissolution of the USSR.

At the same time, we should be prepared to deal with instability in the Soviet Union. In its most threatening form, Soviet domestic volatility may produce a siege mentality that seeks relief or diversion beyond Soviet borders. These threats and their counterparts in Eastern Europe can be contained or even deterred through a continued American presence that provides both symbol and substance to an American guarantee to the security of its European allies—old and new.

## ENDNOTES

1. In fact, the Soviets probably will institute many of the political reforms outlined earlier in this paper. A "wild card" that must be considered, however, is that of the nationalities situation in the USSR. Soviet incorporation of many of these regions has been long regarded by native residents as "illegal." It is likely that during the course of political reforms, some of these republics may choose not to remain in the Soviet Union, through actions similar to the recent declaration of independence by the Lithuanian parliament. Additionally, it is clear that several of the East European countries will seek much closer trade ties with Western Europe and the United States. Thus, the "continued integration of the Soviet empire" is a very unlikely prospect.

2. Indeed, during this period a perceived lack of progress by conservatives (including traditional Communists, extreme Russian nationalists, and others) could lead to an attempt to replace reformist leaders and their policies with a more ideological and less pragmatic approach. Such a development likely would make the domestic Soviet situation more volatile and also would carry a very real risk of a return to a confrontational approach to relations with the West.

3. The proportion of Russian population in the 15 republics varies widely, from 83 percent in the Russian Republic (RSFSR) to 2 percent in the Armenian Republic. However, ethnic Russians are spread widely throughout the Soviet Union; for example, the Kazakh Republic is estimated to have a population that is 41 percent Russian and only 35 percent Kazakh, plus other minority groups.

4. Some observers felt that the Soviet deployment of military and security forces to the Baku areas would "be a good object lesson" for the inhabitants of the Baltic republics. In fact, the situation in the Caucasus was much more complex, involving inter-ethnic strife as well as resentment against Russian domination. Additionally, the Baltic republics have taken a nonviolent path of confrontation with Moscow, working through political means to achieve their goal of independence.

5. These requirements will entail broad contacts by the Soviet population with Western technology and, to a lesser extent, individuals from Western societies; in this regard, there is potential for the economic reforms to further reinforce political reforms leading to pluralism and decentralized decisionmaking.

6. Such a conservative reaction would most likely have to involve cooperation among the three traditional bases of power in the Soviet Union, the Party apparatus—especially the higher levels, the military, and the security services—especially the KGB.

7. Victor Kremenyuk, "Five Years of Perestroika," presentation at the annual meeting of the International Studies Association, Washington, DC, April 13, 1990. The author is an economist at the Institute for the Study of the United States and Canada in Moscow.

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SECURITY CLASSIFICATION OF THIS PAGE (When Data Entered)

REPORT DOCUMENTATION PAGE		READ INSTRUCTIONS BEFORE COMPLETING FORM
1. REPORT NUMBER	2. GOVT ACCESSION NO.	RECIPIENT'S CATALOG NUMBER
ACN 90005		
4. TITLE (and Subtitle)		5. TYPE OF REPORT & PERIOD COVERED
Economic Perestroika: The Consequences of Success		Final Report
		6. PERFORMING ORG. REPORT NUMBER
7. AUTHOR(s)		8. CONTRACT OR GRANT NUMBER(s)
Dr. Stephen J. Blank Dr. Gary L. Guertner Colonel Michael H. Crutcher Colonel John C. Reppert		
9. PERFORMING ORGANIZATION NAME AND ADDRESS		10. PROGRAM ELEMENT PROJECT, TASK AREA & WORK UNIT NUMBER
Strategic Studies Institute U.S. Army War College Carlisle Barracks, PA 17013-5050		
11. CONTROLLING OFFICE NAME AND ADDRESS		12. REPORT DATE
Strategic Studies Institute U.S. Army War College Carlisle Barracks, PA 17013-5050		30 April 1990
		13. NUMBER OF PAGE
		28
14. MONITORING AGENCY NAME & ADDRESS (if different from Controlling Office)		15. SECURITY CLASS. (if this report)
		Unclassified
		15a. DECLASSIFICATION/DOWNGRADING SCHEDULE
16. DISTRIBUTION STATEMENT (of this Report)		
Approved for public release; distribution unlimited.		
17. DISTRIBUTION STATEMENT (of the abstract entered in Block 20, if different from Report)		
18. SUPPLEMENTARY NOTES		
19. KEY WORDS (Continue on reverse side if necessary and identify by block number)		
Perestroika, strategy, economics, consequences, obstacles, options, threats		
20. ABSTRACT (Continue on reverse side if necessary and identify by block number)		
This report examines economic perestroika and the consequences of a successful Soviet economic transformation on U.S. security interests. The study is organized into three major sections: (1) The domestic criteria for the success of economic reforms in the Soviet Union. These include an assessment of the major obstacles to success. (2) The international criteria for success, including an assessment of Gorbachev's national strategy which has dramatically transformed the international system to create conditions necessary for the success of an economic revolution at home. (3) The consequences of success in		

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the short and long term.

The authors conclude that in the short term, Soviet interests dictate the preservation of a cooperative, economically integrated international order that supports economic perestroika. These same interests could prevail over the long term, but two undesirable outcomes are also possible--a reconstituted technological base and assertive military or, at the other extreme, total failure and systemic collapse accompanied by accelerating violence and divisive tendencies within the USSR.

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