CIA underestimates Soviet military expenditures, Russians say

by Scott Thompson

Leading Soviet economists visiting Washington, D.C. in April put forward an evaluation of the Soviet economy which differed markedly from the latest declassified study by the CIA and Defense Intelligence Agency (DIA), released on April 20 to the Joint Economic Committee of the Congress. The Soviet group was in the United States at the invitation of U.S. intelligence analysts; it included several members of the Congress of People's Deputies, as well as Gorbachov's Presidential Council adviser on economics, Stanislav Shatalin.

After the joint CIA-DIA report to Congress on April 20, some of the Agency analysts who had prepared the report met with their Soviet counterparts at Airlie House in Warrenton, Virginia for an April 20-22 conference sponsored by the American Enterprise Institute. On April 23, a handful of the Soviet delegates held a press conference that attained international media attention, as a prelude to their own testimony on April 25 to the Joint Economic Committee of Congress.

Perhaps the most marked disagreement between the CIA-DIA analysts and their Soviet counterparts was on one of the most crucial aspects of the CIA's annual reporting exercise, namely the question of how much of the Soviets' resources are being invested in the military—a critical determinant of Soviet preparedness for a global showdown. Ironically, the Soviet economists sounded more like the old "Team B" of outside experts, which was brought in when George Bush was Director of Central Intelligence, to demonstrate how the CIA had been systematically underestimating Soviet military investment. (It was this error by the Agency that supported then National Security Adviser Henry Kissinger's false contention, that if the SALT treaty were ratified, the Soviets could at best achieve parity with the United States—not the superiority they actually achieved.)

The latest dispute between U.S. intelligence and their Soviet counterparts led Nick Eberstadt, a Harvard economist who chaired the CIA/Soviet confab, to tell Reuters that the Soviet Union is far better prepared for war than the latest CIA-DIA report would indicate.

EIR's forecasts were right

At their press conference, Soviet economist Oleg Bogomolov laid the differences on the table. Bogomolov, who is a member of the Congress of People's Deputies, full member of the U.S.S.R. Academy of Sciences, and director of the Institute of Economics of the World Socialist System, said that where the CIA-DIA report estimates Soviet military expenditure to be 15-17% of Gross National Product, his institute believes that it is more like 20-25%. In a conversation with an *EIR* journalist, Bogomolov revealed that his institute had arrived at this figure based upon the work of Igor Birman, a Soviet economist who emigrated to the United States two decades ago and today heads the Foundation for Soviet Studies. While Birman's method of arriving at this figure was never spelled out, Bogomolov noted that before his recent death, Soviet reformer Andrei Sakharov had said, during debate in the Congress of People's Deputies, that the Soviets were expending 40% of their GNP on their military!

The 20-25% estimate revealed by the Soviet economists conforms with *EIR*'s 1985 analysis, in its Special Report "Global Showdown," that Yuri Andropov and Marshal Nikolai Ogarkov were deploying huge resources to revamp the Soviet military with weapons systems based upon new physical principles (e.g., radio-frequency weapons and "exotic" ballistic missile defense technologies) to fulfill the messianic view that Moscow was destined to emerge as the Third Rome. However, since the Russian *raskolniki* are incapable of assimilating the full benefits of such R&D efforts (as the United States did with the Apollo Moon shot), *EIR* projected that this heavy defense spending would create a physical economic breakdown crisis, causing the Soviets to loot Eastern European satellites beyond recovery, to deplete resources for necessary infrastructure projects, to collapse the consumer sector, and to generate rising ethnic and nationalist unrest.

Suddenly, with their latest annual report, "The Soviet Economy Stumbles Badly in 1989," the CIA-DIA have reached more or less the same conclusion as *EIR*—five years later. According to the report, "Soviet economic problems reached near-crisis proportions in 1989, as severe consumer goods shortages, inflation, and rising social and ethnic violence left Gorbachov searching for ways to put his economic program back on track." But at their press conference, the Soviet economists said that things were even worse than this CIA-DIA estimate would indicate.

Disagreement on scope of the crisis

Highlights of other disgreements between U.S. intelligence and Soviet analysts include:

- Viktor Belkin, who is head of the Laboratory of the Commission for Studies of Productive Forces and Natural Resources, said that whereas the CIA estimates Soviet GNP to be 50% that of the United States, his calculations show it to be 14-28%. If the 14% figure that Belkin prefers is valid, then, even with the deployment of 20-40% of GNP into military expenditures, the CIA-DIA estimate of total resources deployed for military purposes would be greater. However, what the more accurate 20-40% figure says—regardless of the proportion of Soviet to U.S. GNP—is that the Soviets still have a military economy, which must necessarily break down.

One point where Belkin is correct, however, is that GNP comparisons mean next to nothing, since the hyperinflated and wasteful U.S. service sector is at least three times that of the Soviet Union, whereas Soviet figures are clearer reflections of real industrial and agricultural activity.

- Yuri Dykhanov, who participated in the Warrenton conference, also disputed the CIA's figures on per capita Soviet income. Where the CIA estimates it to be one-third that of the United States, he believes it is only one-fifth, which would be lower even than Brazil.
- Viktor Belkin disputed CIA-DIA calculations of the losses of goods produced in the U.S.S.R., which the U.S. intelligence analysts have finally devoted a large section of their report to. While the U.S. and Soviet analysts agree that these losses have become worse, because of the breakdown of infrastructure (especially rail transportation), the distribution system, spoilage, and so forth, Belkin said the U.S.S.R. Supreme Soviet in recent debate estimated that as much as 50% of industrial production and 40% of agricultural production are lost through such means.

The economy and the war danger

What neither the U.S. nor Soviet economists quite know how to describe, is the overall process of the physical economic breakdown crisis of the Soviet economy, which Lyndon H. LaRouche, Jr., predicted several years ago would proceed at an accelerating rate. The breakdown of an economy goes through several "discontinuities," which, in the present circumstances of the Soviet economy, might be likened to the moment at which lung cancer goes into metastasis, with a sudden increase in the rate of acceleration of the progression of the disease. It is this physical economic breakdown crisis in both East and West, that is the greatest potential trigger for war by miscalculation.

The CIA-DIA report tries to describe this process as follows: "We judge that there is a reasonable chance that the economy could deteriorate markedly. It is in an unstable state, which many Soviets describe as a crisis. A single major event or series of smaller linked events could push the economy over the edge into sharp deterioration—that is, a substantial drop in output (perhaps 20% over a year or two) and lead to chaos in the distribution of both producer and consumer goods."

The Agency analysts show themselves to be well behind the pace of events, however, when they add that "it is more difficult to determine how far the leadership would allow the economy's deterioration to proceed before it took decisive action or what type of action this would be." The more apt question would have been, to what extent are the Soviet economic collapse and its political consequences already out of control? The Soviet representatives at their press conference, at any rate, agreed that a "catastrophe" might indeed wipe out all calculation of schedules of reform.

Thus, Vasily Selyunin, a member of the editorial board of the journal *Novy Mir* who had worked on an analysis of the collapse of the Soviet economy with Grigori Khanin of the Novosibirsk reform group, said: "Let's make no mistake—a 20% drop in production over one to two years would be catastrophe just like the recent 16% drop in the Polish economy was catastrophic. If the GNP drops 20%, I no longer would know any measures to save it." Khanin said that while a 20% drop might occur over two years, it would be the result of social chaos arising from such things as a hard winter, a drought, or a general strike. A combination of such factors, he conceded, might trigger such a collapse.

While the Soviet economists would not fully endorse this possibility of collapse, each pointed out major areas of growing discontinuity in the Soviet economy, including:

1) diminishing marginal returns from fossil fuel energy production (oil and coal) unless there are major new inputs of Western technology to exploit them;

2) the breakdown of the railway system, which requires heavy infrastructure investment to rebuild 2,000 bridges dating back to czarist times;

3) the collapse of the consumer distribution system, such that those goods that make it through the transport system (20,000 railway cars were "lost" last year) go either to factories for direct distribution or else to the black markets, rather than to official markets;

4) the rise of "goods inflation" arising from the Politburo's 1987 revaluation of the ruble, which in the first quarter of 1990 caused a 15% rate of growth of consumer income with only a corresponding 5% increase in consumer goods; and,

5) an inability of the transport and distribution system to manage distribution of imports bought to substitute for declining domestic production.