

SOVIET TASK FORCE

- - -

Wednesday, December 7, 1988

- - -

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.

- - -

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

P R O C E E D I N G S

SENATOR BRADLEY: The Task Force will come to order.
Doug, thanks for coming back and bringing your astute and
perceptive and insightful colleagues.

4

1 hierarchy. Nonetheless, we have seen enough of Gorbachev that
2 I would not rule anything as being out of the question. And
3 so as I said, I know that I have taken a position for a long
4 time that he will have to cut his military -- the amount of
5 resources, the proportion of resources that go to the
6 military.

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

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

22 SENATOR BRADLEY: Okay.

23 MR. MACEACHIN: Bob.
24
25

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

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

1 done it.

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

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

13 **MR. BLACKWELL:** Essentially the device is creating the
14 Central Committee Commissions. there are 6 of them, each
15 headed by a Party Secretary, but with defined areas of
16 responsibility. Ad secondly, apparently by not having the
17 Secretariat as an organization meet, or if it does, not meet
18 very much. And then thirdly, not having someone who serves in
19 the role as number two man in the Party hierarchy. Ligachev
20 clearly does not and it does not appear that anyone else
21 really does. Some people would argue that Zaykov, who is head
22 of Moscow, may have moved up a bit, but that is fairly subtle
23 stuff. But basically the Party machinery seems much more
24 responsive to him probably than it did, at least at the
25 highest level.

1 The other thing that has happened in addition to
2 reorganizing the Central Committee's work into these
3 commissions, is a cut in the staff by 30 to 50 %. We don't
4 quite know, but we do know it is going to be high. One of the
5 elements of the reorganization of the Central Committee,
6 incidentally, was basically to eliminate or abolish most of
7 its economic departments that micromanaage the ministries and
8 whatever. They still have a commission on economic social
9 issues, but they have done away with the departments that are
10 there primarily to oversee particular sectors of the economy.
11 They have an Agricultural Commission and they have an Economic
12 Commission. The Economic Commission covers what formerly 7 or
13 8 departments would have probably covered.

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

16 **SENATOR BRADLEY:** Agriculture and what was the other one?

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

25 **SENATOR BRADLEY:** Okay.

1 MR. BLACKWELL: but anyway, that is basically the way
2 they have reorganized the work.

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

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

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

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

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

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

23 SENATOR BRADLEY: I mean, you know, that was my next
24 shot. I was going to go in August; everybody is on vacation.
25 In November and they said all the people would be in these

1 constitutional meetings. December they couldn't receive me at
2 the proper level, whatever that means. And so I had said
3 April. Now you tell me the time I want to go there they all
4 have a big conference.

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

7 SENATOR BRADLEY: but maybe it'll be early April.

8 MR. BLACKWELL: Maybe it will be. Don't know.

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

21 But I would say with both things, both the Party
22 reorganization as well as the Supreme Soviet, it is going to
23 take time to see how this plays out in acutality. It think it
24 is real. It is dramatic that he was able to do it. It helps
25 him. It is all of those things. But right now it is like

1 rearranging the furniture and you really need to see how
2 people sit in it for a while and how they use it. And it is
3 still an open question as to whether you can breathe real life
4 into that legislature or not. By making a portion of it more
5 or less full time, you at least create some potential for it.
6 And the fact that he is going to head it and seems to want to
7 use it as an instrument to try to create more popular pressure
8 on the administration of the country, the executors, is
9 another reason why you might see that. It seems like that is
10 where he wants more of the pressure to come from, rather than
11 the Party organizations themselves.

12 The second issue I would pick up on and we can talk about
13 it at almost any length because it is so dramatic, is the
14 turmoil among nationalities. There are two things that I
15 think have to be said about this. Some of it, like the
16 Caucasus, clearly reflect age-old problems that have bubbled
17 up in part as a result of perestroika. Now, he says
18 perestroika is only helping us to deal with it, but in fact
19 perestroika and glasnost created an environment where people
20 have lost their fear to a considerable degree, and speak out.
21 In the kinds of areas as in the Caucasus between Armenia and
22 Azerbaïdzhân, this is a by-product of it. This is a no win
23 situation for anybody down there because it has gone so far
24 the area is in a virtual state of semipermanent martial law.
25 They don't call it that and it ebbs and flows, but there is no

1 obvious easy solution in sight other than to try to sit on it
2 for a while and hope they can just keep the violence under
3 control and manage it.

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

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

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

12 **MR. BLACKWELL:** Yes. And you are talking about over
13 100,000 refugees now, with Armenians going one way, Azeris
14 coming another. I mean there is a lot of resettling of
15 populations just out of fear -- fear of communal violence and
16 the need to get into a more protected area. So I mean, they
17 have got a real problem; it is not separatist in its thrust.
18 It is not secessionist. But it is a management problem.

19 **SENATOR BRADLEY:** It's not Estonia.

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

22 **SENATOR BRADLEY:** It is; right.

23 **MR. BLACKWELL:** But to speak of the Baltic, that moves to
24 the second of which Estonia is the most dramatic. The thing
25 about the Baltic I think that is the most interesting is that

1 this is the area where the legitimacy of the Soviet state was
2 always the most questioned, but yet it is the area where
3 Gorbachev and his colleagues seem to have chosen to try to
4 experiment with perestroika the most. Because in fact, what
5 has happened in the Baltic is not just a product of glasnost
6 and perestroika in that sense that is bubbling up because
7 perestroika creates more opportunities. Gorbachev's own
8 policies have abetted what has happened in the Baltic more
9 directly than that, essentially by replacing a whole slew of
10 conservative, old line Brezhnevite political leaders with
11 reformers in the Baltic, and given them the charge it seems to
12 be, to try to get on the right side of popular feeling as best
13 they can. And so in effect what has come of that is that you
14 have had party leaderships and Supreme Soviets, as in Estonia,
15 that basically are really pressing at the edge of what Moscow
16 in the end wants to allow.

17 Now, obviously there is a calculation here in the long
18 run that they think, I think on Gorbachev's part, that maybe
19 this can be managed, that the rationality of offering the
20 Baltic more than it ever has had since Soviet rule came into
21 it, will overcome the emotionalism of wanting to try to take
22 it to its logical conclusion, which is independence, which
23 Moscow will not allow. I think they have made that fairly
24 Estonia is farther out. He seems to have been somewhat
25 successful at pulling Latvia and Lithuania back a bit short of

1 pressing this to the end. this is an on-going process. But I
2 think it is clear that they are trying to treat that issue
3 very differently than they are trying to treat the problem in
4 Armenia and Azerbaidzhan because it is very different.

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

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

19 And then the last one that fits in this same period is
20 what I would call foreign policy activism. I don't want to
21 turn this discussion over into it, but obviously the New York
22 initiative; the acceleration in relations with China, which
23 you have been talking about for some time; the fact that you
24 are going to have a summit next year almost certainly I would
25 say; their national reconciliation or what you could call a

1 constructive role in both Vietnam and in Angola in trying to
2 reach some sort of settlements there even in the Angolan case
3 one that is orchestrated and managed by us. It is a very
4 activist approach geared both for its own sake, that is,
5 better foreign policy as well as creating this kind of
6 environment that he wants. I would also submit --

7 **SENATOR BRADLEY:** That environment being?

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

13 **SENATOR BRADLEY:** So he gets trade.

14 **MR. BLACKWELL:** I think he probably thinks that is
15 further down the road in terms of-- Paul is going to talk
16 about it so I will let him handle the trade part of it. But I
17 don't think that is the immediate thing. I think there are
18 political benefits to be had in general in terms of creating a
19 better image for the Soviet Union. And also I think he has
20 done a cost-benefit analysis of what some of these other areas
21 like Angolas and Vietnams amount to and has decided there is a
22 better approach for the Soviet Union than the one he was
23 pursuing, one that both cost less and is politically more
24 beneficial and doesn't hurt his security and doesn't threaten
25 much of anything.

1 Other thing on this one point though that goes back to
2 the power consolidation earlier, one impact of what happened
3 in September and October in Gorbachev's assuming the
4 presidency, Ligachev's downgrading and all of this, has
5 essentially been to increase his clout. He already had a lot
6 of it. But to increase his operational and tactical control
7 over foreign policy decisionmaking and I would say national
8 security decisionmaking. His allies, Yakovlev and
9 Shevardnadze sit athwart that, Yakovlev heading the foreign
10 policy commission, for example, in the central Committee,
11 Shevardnadze the Foreign Ministry. The changes resulted
12 almost certainly in changes in the Defense Council
13 composition. We don't have evidence for it, but based on
14 precedence and what we know about who usually is on that body,
15 one could judge that. Even Kryuchkov's coming to power in the
16 RGB would probably be viewed as furthering that.

17 I think you are seeing a Soviet --

18 **SENATOR BRADLEY:** Furthering what?

19 **MR. BLACKWELL:** Furthering Gorbachev's effective control
20 of the foreign policy-national security policy decisionmaking
21 process. Sort of not just as coterminous with the Politburo,
22 but the key players are his, or at least very responsive to
23 where he is going to want to go. And if we indeed are getting
24 large decision made on this at the UN, I think it would be
25 reflective very much of decisions that at least go back that

1 far -- of thinking further back than that, but of decisions
2 that come out of this. I don't think we can underestimate the
3 importance of those changes in terms of how it has probably
4 helped him in foreign policy.

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

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

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

24 That doesn't mean that problems go away, that
25 perestroika works. You know, all those kinds of caveats I

1 have not talked about. They would still be there. If you
2 want to, we can get to them.

3 SENATOR BRADLEY: Okay. Paul.

4

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

1 **STATEMENT OF PAUL ERICKSON,**
2 **DEPUTY DIRECTOR, OFFICE OF SOVIET ANALYSIS,**
3 **DIRECTORATE OF INTELLIGENCE**
4 **CENTRAL INTELLIGENCE AGENCY**

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

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

25 Domestic inflation which we'll talk about raises yet

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

11 At the same time, he had a situation where you could
12 point to increased production in consumer goods, but increased
13 consumer dissatisfaction. Inflationary pressures led to
14 longer rather than shorter lines and marked price increases in
15 those markets that were private. Fruits and vegetables,
16 moreover, in short supply because of a poor harvest in
17 '87-'88. And even though we see signs of substantial
18 increases in meat production, complaints from consumers on
19 meat have been substantially on the rise.

20 **SENATOR BRADLEY:** On the quality?

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

23 **SENATOR BRADLEY:** That there is increased production --

24 **MR. ERICSON:** That by all indications there was an
25 increased production while at the same time there have been

1 increases in complaints about shortages.

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

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

18 But he has advanced and moved ahead aggressively, I
19 think, in two main areas. The first has to do with consumer
20 welfare. We believe that the FY 89 plan received some last
21 minute revisions. For example, in early September we were
22 hearing about public complaints by light industry about
23 investment having been cut. We were hearing other noises
24 about investment going to agriculture having been cut. But
25 yet when we see the final plan, these cuts did not

1 materialize -- in fact, investment in light industry and
2 housing, food processing -- all sectors associated with
3 consumer welfare -- have been emphasized. Importantly, the
4 shift comes at the expense of investment elsewhere as near as
5 we can tell, there have been cuts form planned investment

6 (Pause.)

7 SENATOR BRADLEY: At the expense of what?

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

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

20 A second area worth noting is what seems to be increased
21 pressure on the defense industry to boost production of the
22 civilian sector. I think if you go back and look at the
23 record on this, the leadership started out by transferring
24 some managers from the defense to the civilian sector to boost
25 management productivity. Then you saw pressure to boost

1 production of investment goods out of the defense sector.
2 Most recently you saw the tasking of the defense sector with
3 the production of of what had heretofore been civilian plants.
4 And lastly what you are seeing are clear statements by
5 officials from the defense-industrial sector that they have
6 made accommodations and will be boosting production of
7 civilian type goods at the explicit expense of defense
8 production.

9 We haven't seen --

10 SENATOR BRADLEY: You mean they will close military --

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

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

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

24 SENATOR BRADLEY: Could I interrupt a minute? I have to
25 take a 10 minute break to see this Japanese minister.

1 (A brief recess was taken from 11:20 to 11:42 o'clock
2 a.m.)

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

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

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

25 I would like to point out that we now look at the next

1 five year plan as an indicator of where he is moving with this
2 flexibility. If Gorbachev wishes to make significant shifts
3 in investment between the defense and civil sectors, certainly
4 now is the time to do it. It is optimal in terms of the
5 Soviet planning process as it pertains to defense planning to
6 finalize resource allocations over the next five to seven
7 months. It doesn't mean he has to do it now, but it is the
8 optimal time to do it.

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

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

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

19 MR. ERICSON: Yes, sir.

20 SENATOR BRADLEY: Okay.

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

25 But Gorbachev has a number of problems which are coming

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

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

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

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

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

24 MR. ERICSON: That's part of it. You could look at it
25 from that perspective, and that plays a role, yes.

1 MR. MacEACHIN: I think they are trying to get the
2 revenues back from the tax on alcohol that they lost.

3 SENATOR BRADLEY: Right; right.

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

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

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

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

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

23 I would like to end with what all this means for foreign
24 trade and East-West economics, and what have we seen over the
25 last few months.

1 I would assert that an indigenous solution remains
2 preferred. We have no indications of a major import push, nor
3 do we believe that there will be one barring almost panic
4 buying to quiet consumer unrest. I think the Soviets are
5 sensitive, extremely sensitive, to the risk of becoming
6 financially leveraged to the West. And I think that they are
7 uncertain about their ability to maintain export earnings over
8 the medium and long term. And given this uncertainty,
9 building up indebtedness carries significant risks. Moreover,
10 I think they continue to harbor misgivings about the
11 effectiveness of direct equipment purchases, particularly when
12 their domestic industrial base is in transition. There are
13 problems today bringing plant and capacity on line, and the
14 foreign trade sector is still in the midst of reorganization.

15 I find it personally useful to characterize their foreign
16 trade initiatives as being those that are designed to
17 rationalize trade and technology transfer, and to design and
18 implement rules and procedures that allow for the most
19 effective tapping of western technology and capital, and
20 ultimately to maximize their opportunities for export sales --
21 joint ventures and --

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

24 MR. ERICSON: Well, it may not be a one to one, Senator,
25 but I think what Gorbachev needs is western know-how, not just

1 western equipment. And western direct investment commits the
2 western commercial firm to the success of the venture in a
3 fundamental way. And that is what he wants.

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

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

19 **SENATOR BRADLEY:** But that implies that he has got to
20 really create a climate of some real stability for people to
21 believe that it is good for 30 years. I mean, he has got to
22 be even more dramatic on the conventional force side and on
23 the defense budget side than he has been to date than I have
24 heard anybody say or I have heard anybody say he is going to
25 be.

1 MR. MACEACHIN: Up until 15 minutes ago, perhaps.

2 SENATOR BRADLEY: But you say even 30% cut in forces, I

3 mean. You said 30% cut in his military budget was the rumor?

4 MR. MACEACHIN: The rumor was forces.

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

6 MR. DESPRES: Forward deployed forces?

7 MR. MACEACHIN: No.

8 MR. BLACKWELL: No. I mean, if you did it a million and

9 half or so --

10 MR. MACEACHIN: We're talking on the order of a million

11 person cut and whatever attends that in terms of structural

12 reduction.

13 SENATOR BRADLEY: But let's say that that flows through

14 therefore to the defense budget, right? Meaning that you then

15 can cut the defense budget. But the firms that are going to

16 make these commitments, they're not going to make them all in

17 one year.

18 MR. ERICSON: That's right.

19 SENATOR BRADLEY: So I mean, if he has to create this

20 climate by dramatic reductions or whatever, even to attract

21 the serious commitment, that if at any point in year 1, 2, 4,

22 5, 7, things begin to go bad, these firms just won't be there,

23 right? They'll just pull out. They just won't -- they reach

24 the point where they will have to make a judgment and cut

25 their losses.

1 MR. ERICSON: I think a fundamental problem that he has
2 in my view is that the time horizon for the kinds of things
3 that he wants out of joint ventures is incompatible with the
4 state of affairs.

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

7 MR. ERICSON: Right.

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

12 MR. BLACKWELL: Oh --

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

15 MR. ERICSON: That's right.

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

19 MR. ERICSON: It is a high risk --

20 SENATOR BRADLEY: That is not a whole lot different than
21 having the central bank advance credits to the enterprise and
22 say that is an advance because productivity is going to
23 increase. It is essentially having us play the role of
24 central bank or whatever, advancing to them their goods with
25 the assumption, well, productivity is going to -- but if he

1 doesn't get to the reforms, it is just a short term thing
2 which will ultimately lock him in more and more to a
3 relationship with the West which is -- which makes him a kind
4 of supplicant. I mean, he can only --

5 MR. BLACKWELL: It would make no sense --

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

7 SENATOR BRADLEY: It makes him a true developing country.

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

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

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

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

19 MR. MACEACHIN: Well, at the risk of oversimplifying, to
20 go back to one thing Paul said earlier, where Gorbachev
21 previously was driving a pace of reform and a pace of change
22 that the system wasn't ready to absorb, he has modified that
23 approach -- he hasn't abandoned industrial modernization, but
24 he has recognized and has focused on the need to develop a
25 sustaining motivation for change. In the area of foreign

1 policy, this is something where we could probably spend most
2 of the day, because the developments that have been occurring
3 are very interesting. You may remember a session we had here
4 -- I think it had to do with South Asia -- when we got into a
5 discussion of what we saw at that time as a changing Soviet
6 paradigm for foreign policy strategy. In effect, the "new
7 thinking" said that heretofore the USSR has relied on military
8 power to manage its security. That is very expensive and
9 resource consumptive. The USSR should develop a political
10 strategy which will not only maintain but perhaps enhance
11 security at reduced cost.

12 We have seen this summer with the heating up of the
13 discussion with the Shevardnadze addresses, followed up by the
14 shake-up in the Central Committee and Medvedev's reaffirmation
15 of this move away from the class struggle as defining the
16 purposes and objectives of foreign policy. If you will, it is
17 movement towards a more real politik. I think Gorbachev would
18 still see geostrategic, geopolitical East-West competition.
19 But the way it is now being articulated -- and Bob Blackwell
20 just went down the hall to watch some of Gorbachev's UN
21 address on television, and tells us that it is very much the
22 Shevardnadze line, which we may have all heard, but which is
23 going to be rather impressive to an audience that hasn't heard
24 it -- which is saying that heretofore -- I am not going to
25 quote, now, and quite frankly, I am drawing a lot on some of

1 the other theoreticians, too -- but what it says is that the
2 USSR has presented to the world a threatening image, and the
3 world has reacted to that threatening image and the USSR's
4 need for strong forces has become a self-fulfilling prophecy.
5 It also says that because the USSR viewed all foreign policy
6 ventures in terms of a class struggle rather than in what is
7 in its best interest, taking into account the mutual interests
8 or the legitimate interests of others, we've created this
9 situation which has imposed this heavy burden.

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

22 All of which is a long lead-up to say that what I think
23 you are seeing in Europe and what I think you are going to see
24 even more of in the coming year, regardless of whether there
25 is a major announcement today, is a heating up or a much more

1 intensification of the effort to convince Europe that the
2 Soviet Union is less of a threat. That gives Gorbachev far
3 more latitude to pursue his own internal economic agenda.
4 Trade will be a part of that, but only a part. And it will
5 also strengthen his hand politically in Europe.

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

25 Which brings me to this long range problem that we have

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

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

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

20 **SENATOR BRADLEY:** The postwar concept.

21 **MR. MACEACHIN:** It is the postwar concept. It is what
22 all of us who grew up in the postwar period, and even -- I
23 think of my parents and their outlook, who were young marrieds
24 during the war -- and the Soviet Union is so fundamental to
25 our outlook on the world, to our concept of what is right and

1 wrong in politics, to our sense of security, that major change
2 in the USSR is as significant as some major change in the
3 sociological fabric of the United States itself. And that is
4 not a frivolous point, I think, because it gets down to what
5 has been the analytical challenge for us and what I think is
6 going to remain the analytical challenge for us.

7 A news bulletin. Gorbachev will cut troop strength by
8 500,000 over the next two years, and will substantially cut
9 conventional armaments. 500,000 is a fairly --

10 MR. BLACKWELL: 10%.

11 MR. MACEACHIN: That's 10%.

12 MR. DESPRES: The bulk of that can easily come out of
13 East Asia.

14 MR. BLACKWELL: Don't bet on that.

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

19 SENATOR BRADLEY: His speech did not ask for
20 reciprocation?

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

23 MR. ERICSON: This is analysis on the fly.

24 SENATOR BRADLEY: Okay.

25 MR. MACEACHIN: we'll get an update and then we'll come

1 back to this.

2 **SENATOR BRADLEY:** No, but keep going Doug, because I find
3 this very interesting.

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

15 **SENATOR BRADLEY:** The what?

16 **MR. MACEACHIN:** The brokering --

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

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

24 **SENATOR BRADLEY:** In a not mutual --

25 **MR. MACEACHIN:** Neutral.

1 MR. BLACKWELL: Neutral.

2 SENATOR BRADLEY: Okay.

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

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

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

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

21 Moreover, had it existed inside the government, we never
22 would have been able to publish it anyway, quite frankly. And
23 had we done so, people would have been calling for my head.
24 And I wouldn't have published it. In all honesty, had we said
25 a week ago that Gorbachev might come to the UN and offer a

1 unilateral cut of 500,000 in the military, we would have been
2 told we were crazy. We had a difficult enough time getting
3 air space for the prospect of some unilateral cuts of 50 to
4 60,000.

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

6 **MR. MACEACHIN:** Well, getting it written and getting it
7 articulated without it being hammered to death and --

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

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

20 **MR. BLACKWELL:** Senator, if I could just add something on
21 it, just to get the sense of disagreement there. Up until two
22 weeks ago or yesterday for that matter, there were real
23 differences in the Intelligence Community over how much
24 economic strain the Soviet Union is under and how much they
25 have -- the kind of economic motivations for cutting defense.

1 That is at one level. The real differences in the Community
2 were as to whether the Soviet Union would undertake any
3 significant unilateral cut at all. I am not talking about
4 500,000; I am talking about 50,000 or 20,000 or anything that
5 was otherwise not tagged to something reciprocal.

6 MR. MACEACHIN: And I don't want to pick on any
7 individuals --

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

10 MR. MACEACHIN: But one person has already disparaged the
11 500,000 that I just announced here. Someone in the room; I
12 have forgotten who it was.

13 SENATOR BRADLEY: Oh -- yes.

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

23 Now, I think we have had some success on that in the last
24 few years, and I will try to describe what kind of environment
25 I think has contributed to the success and also contributed to

1 the cost, and where I think we will be going with this.

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

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

24 SENATOR BRADLEY: You mean you spend a lot of time
25 writing up doubts?

1 MR. MaceACHIN: Writing, reviewing, polishing and going
2 over the texts --

3 MR. BLACKWELL: Editing, massaging --

4 MR. MaceACHIN: It is not just editing.

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

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

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

17 SENATOR BRADLEY: On oil?

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

19 SENATOR BRADLEY: Oh, okay.

20 MR. MaceACHIN: This had to do with the readiness of
21 Soviet forces in Europe to go to war; how much time it would
22 take them and how ready they would be. We got a few hits in
23 the newspaper on this. We outraged many people in Allied
24 Intelligence Services. NATO has -- I guess I haven't talked
25 to an official of an Allied Intelligence Service in a year who

1 hasn't taken me over in a corner and asked me when I am going
2 to get off this silly position we have that the Soviets can't
3 go to war in 48 hours. I understand the political problem of
4 these Allied Service reps. My point being is --

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

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

11 **SENATOR BRADLEY:** Yes, I saw that.

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

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

22 And my only point is that --

23 **SENATOR BRADLEY:** so you have to take your documents and
24 your analyses which, while precise, should be loose enough so
25 that it allows creative thought, and instead you treat them as

1 -- you have to treat them as if they are speeches in a
2 campaign where every word will be looked at. Or speeches of a
3 leader or head of state?

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

6 MR. BLACKWELL: Talmudic.

7 MR. MACEACHIN: So we really do have to work very hard at
8 this.

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

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

24 Now, many professors on the outside write, they print in
25 the media, and they get great attention. Many of them, quite

1 frankly and interesting, that have more credibility with
2 policymakers simply because they're not part of the
3 intelligence establishment.

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

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

18 SENATOR BRADLEY: Right.

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

24 And I guess I'm not going to say this has to change.
25 What I'm going to say is in some respects I think because most

1 of us have this commitment -- most of us have this commitment
2 -- we are intelligence officers, just like some people are
3 lawyers and doctors, that we're going to succeed in making
4 this better.

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

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

14 We deal with them routinely.

15 We keep these things us. And we find them to be of
16 immense value.

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

25 So --

1 SENATOR BRADLEY: You mean you know what the criticism is
2 going to be?

3 MR. MACEACHIN: Sure.

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

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

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

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

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

23 Well, true, we haven't seen anything yet. It's hard to
24 see things and maybe some material things haven't moved yet.
25 But we're going to have to decide what does real, quote,

1 unquote, mean. What are the signs of this real change.

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

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

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

24 What are the questions that are going to be more
25 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.

1 But the truth of the matter is that there isn't any easy
2 way. We're going to have to do our work, continue to try and
3 improve the analysis. Continue to confront the tough
4 questions. And ultimately the questions -- I mean the
5 importance of this for the United States is monumental. If
6 the Soviet Union in the year 2010 is not the kind of military
7 threat that has driven so much of what we have confronted for
8 the past three or four decades, what will it be?

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

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

23 The second event, a little further down the road, one
24 which seems to have even of greater hurdles is Europe 92. And
25 therein is a good case, if the Soviet Union -- and perhaps

1 because the Soviet Union -- is a less apparent, less
2 demonstratable military threat, the role of the Soviet Union
3 in the equation of the United States, Europe and the East may
4 be greater, not less, facing an economically integrated Europe
5 because the attitudes of the Europeans towards the Soviet
6 Union are going to be immensely affected by their perceptions,
7 if it stands up, of a changing U.S.S.R.

8 So I don't -- I guess I see that the intelligence --

9 SENATOR BRADLEY: So their attitudes will change and that
10 means what?

11 MR. MACEACHIN: They may engage the Soviet Union, they
12 may engage East Europe in quite a different way and may be
13 less susceptible to the U.S. desires if they no longer see the
14 military threat in the same dimensions. And, therefore,
15 putting it bluntly, may feel less need to please the U.S. in
16 order to sustain a relationship which has had largely security
17 as its glue.

18 SENATOR BRADLEY: Right.

19 MR. MACEACHIN: That's exactly the strategy advocated by
20 the theoreticians mentioned earlier.

21 SENATOR BRADLEY: Yes. well, that's very -- I find it is
22 very provocative because I've sensed aspects of that over the
23 last year and half talking to a lot of Europeans.

24 And I've talked to a lot of Europeans about what
25 Gorbachev means and basically they've said what Gorbachev is

1 playing is a Socialist with a human face. In other words,
2 human Socialism. Right? And the question is what's the idea
3 that you're playing? And the answer that you're giving me is,
4 well, you know, maybe the Soviet theoreticians are right in
5 their analysis that the Europeans aren't attached to any idea,
6 they're simply used to a military and a paternal or protective
7 relationship.

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

12 SENATOR BRADLEY: Yes.

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

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

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

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

19 MR. MACEACHIN: Yes.

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

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

24 MR. BLACKWELL: Probably not.

25 MR. MACEACHIN: Probably not. But it is liable to mean

1 that our exhortations for budgets and commitments on programs
2 will have less force.

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

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

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

23 MR. BLACKWELL: What little part I saw of Gorbachev's
24 speech certainly was very much playing to the notion about
25 world trends that are independent of ideology and alliance and

1 all of the other things. And how his country at least is
2 trying to get in sync with that.

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

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

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

11 SENATOR BRADLEY: Yes.

12 MR. MACEACHIN: Because we know how to handle that.

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

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

18 That's kind of interesting --

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

25 MR. MACEACHIN: Well --

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

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

11 **MR. BLACKWELL:** Probably should be.

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

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

24 If Gorbachev makes these cuts, and if he makes them as I
25 think he will, frankly, at least some of them in visible,

1 definable combat forces -- if he doesn't, he's gong to give up
2 a lot of the political benefits that would accrue to this --
3 then if he follows it up, at what point do various -- and at
4 what point then does Gorbachev become a more active player in
5 international markets. Not as a supplicant, but as a player.
6 At what point do the Europeans who have always seen an active
7 economic engagement, if it could be economically sound, as
8 contributing to their security.

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

15 SENATOR BRADLEY: How is it in their economic interests?

16 MR. MACEACHIN: Well it's not now and I think that's the
17 problem.

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

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

21 There's a part of me that says that Europe '92 and the
22 tendency in Europe is to turn much more to the Soviet Union
23 and really going to plow a lot of resource into there. My
24 response to that, looking at American interests, is to be my
25 quest. Go right ahead. I'll focus on the Pacific, you focus

1 on --

2 MR. ERICSON: That would be the point that I would loot
3 at. And that is that you have a world that is much more
4 contentious economically than a world 10 years ago in terms of
5 a rush for technological leadership.

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

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

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

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

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

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

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

24 MR. ERICSON: All I am suggesting is the sweep of the
25 economic dynamics are not incompatible with the kind of the

1 other.

2 MR. MACEACHIN: They can do some things to their process
3 which would enable -- I mean the price mechanism changes.
4 They desperately need it -- they desperately need to make
5 their own economic mechanism work.

6 But they can manage to create a market for foreign
7 producers I think without going through a full price reform.

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

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

16 MR. BLACKWELL: I don't think anyone would argue that the
17 Soviet Union by the end of the century is going to be an
18 economic player on the scale of Western or Northern Asian
19 countries nor should we fear it to become one.

20 I mean they simply -- they've got too long a road to hoe
21 to get there.

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

24 MR. BLACKWELL: But it is bounded because the Soviet
25 Union really cannot be a heavy purchaser, and other than raw

1 materials, much of a heavy supplier economical it seems to me.
2 They don't have a labor pool like the Chinese do or other
3 countries do.

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

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

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

21 **MR. MACEACHIN:** The whole north Pacific nexus.

22 The other thing is that we will have, lest I not sound
23 like I'm totally off the reservation, I guess I am, all right
24 -- is that there is this other scenario which says the Soviets
25 use, you know, they do this as part of a means of getting

1 breathing space, getting their house in order so they can come
2 back and become an even greater military threat in the next
3 century. That's alternative that we cannot dismiss and we are
4 going to have to treat seriously.

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

6 MR. MACEACHIN: Well, I have personal views on it that I

7 --

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

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

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

22 Now the trick for us is going to be to develop the
23 long-range outlook, so we can keep our eye on the long-range
24 ball, but in the short-term, it seems to me, the question for
25 the next twelve to twenty-four months is going to drive right

1 at -- excuse me -- obviously we have a major analytical
2 problem in keeping up with the extremely volatile political
3 situation in the Soviet Union which could make all this
4 change. It could.

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

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

14 MR. MACEACHIN: What does it mean for us?

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

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

24 And then you fit that into an information delivery system
25 to the broader population in this democracy where whatever is

1 said, whether it is the most well researched, thorough
2 analysis, the impulse -- and television is the ultimate
3 highlight of this -- always has to have the counter view.
4 However irresponsible it is. And unresearched.

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

11 MR. MACEACHIN: It comes with the territory. It goes
12 without saying.

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

17 But there are a couple of points that occur to me --
18 there are a couple of things that may be worth taking a note
19 of.

20 One, the revolution we're talking about in the Soviet
21 Union -- I really think it is, Gorbachev describes it that way
22 -- bit it is really a part of -- it's a global Communist
23 revolution. All of those systems in one way or another are
24 coming up to the natural limits of the Stalinist order. The
25 problem for every one of them has essentially been they've

1 adopted some form of Stalinist mechanisms for running and
2 controlling their country, and they have come up against the
3 revision of the superstructure in Marxist terms. It simply is
4 not working in this environment. That's one.

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

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

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

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

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

25 The Deputy Director has -- the third thing. The deputy

1 director has commissioned a kind of agency conference some
2 ti s next winter where we draw in big thinkers in a fairly
3 small, compact setting. Some futurologists, some from -- we
4 haven't even scoped it yet. But essentially big thinkers to
5 think about the Soviet future, ten, fifteen, twenty years from
6 now.

7 SENATOR BRADLEY: When is that?

8

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

10 MR. MACEACHIN: We're talking around March.

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

12 SENATOR BRADLEY: Any Senatorial attendance?

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

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

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

23 But, at the same time, I think that we have -- it has
24 resulted in a better analytical system, and a better product.
25 That may be patting ourselves on the back, but it is really

1 not. We probably, if left to our own devices, would have
2 squirreled away in Langley and done our little thing.

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

5 MR. BLACKWELL: Two pieces of product. Doug has had a
6 number of papers that really have tried to press the envelope
7 some to come out of SOVA.

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

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

19 We're also going to do an estimate now on -- it's called
20 11/4, but it is essentially Soviet national security strategy
21 toward the West.

22 Basically, I don't know what all the answers will be in
23 the estimate and we have written it, but one of the things
24 you're going to find in it is we're going to use it to try to
25 stretch the Community's thinking so that we at least, if we do

1 nothing else, find out how much we disagree or agree on some
2 things. That is, we're not going to try to reach consensus in
3 it because it really shouldn't. There are cosmic issues on
4 that kind of a subject. There's probably not yet revealed
5 truth to be found.

6 **SENATOR BRADLEY:** On Soviet strategy?

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

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

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

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

21 **SENATOR BRADLEY:** Can I get it?

22 **MR. MACEACHIN:** Yes sir. I'd like to do a little
23 scrubbing I told you about but we should have it out within
24 the week or so or earliest available, a couple of weeks may
25 be.

1 **SENATOR BRADLEY:** But basically it is as you outlined?

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

5 [Deleted]

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

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

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

17 **MR. MACEACHIN:** Exactly.

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

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

23 **MR. MACEACHIN:** Well the first part of it was -- the
24 theories didn't quite get there that fast. And there have
25 been others who have taken the arguments further.

1 Initially, one theoretician identified that U.S. military
2 strength and projection as the source of the U.S.'s global
3 power and that was the strategic linchpin. That was the point
4 at which he should attack.

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

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

16 In effect, the Western modul delivers.

17 SENATOR BRADLEY: Right.

18 MR. BLACKWELL: There is a much more --

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

22 MR. MACEACHIN: That the raison d'etre -- that the U.S.
23 leverage and entire --

24 SENATOR BRADLEY: The West will say, why do we need all
25 of this military? You mean the Western democracies them

1 selves? In other words you couldn't do this, that the public
2 would say I don't want to be taxed to pay for a defense budget
3 if there's no threat. And so what they have to do is present
4 an image where there appears to be not threat.

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

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

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

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

14 SENATOR BRADLEY: You can take it off.

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

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

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

24 MR. MACEACHIN: That the five hundred thousand cut in
25 military forces is a reality and there will be more over the

1 next five or six years.

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

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

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

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

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

25 SENATOR BRADLEY: Do you agree or disagree?

1 MR. MacKACHIN: I agree.

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

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

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

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

14 SENATOR BRADLEY: The interest.

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

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

21 MR. BLACKWELL: Even if we accept the vision, which I
22 also do, being able to collapse three hundred years or so so
23 of Western history into a couple of generations or three or
24 four decades ain't going to be no easy achievement and you're
25 not going to do it ten years.

1 MR. MACEACHIN: Could I leave a question here, if I may?

2 SENATOR BRADLEY: Okay.

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

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

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

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

25 That question will not be answerable in the next week or

1 so. It's going to be a two year program. But it serves to
2 illustrate--here we have another piece. And yet I'm not sure
3 we're going to be further down the line on this question than
4 we were before the announcement was made. We're going to
5 spend a lot of analyst hours. And make a lot of projections.

6 **SENATOR BRADLEY:** Yes.

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

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

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

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

25 And that's clearly the case in the Intelligence

1 Community, in the political community, if you have constructed
2 as the reason you do what you do because there is this threat,
3 and what you are doing is protecting your family basically,
4 and then suddenly there is not threat, you've got a
5 reorientation. And the question is how and who and to what do
6 you reorient?

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

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

13 SENATOR BRADLEY: Yes.

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

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

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

24 [DELETED]

25 MR. ERICSON: I think that if -- you know, if you look in

1 the 70's, in the 70's the Soviets thought so highly of U.S.
2 technology equipment and knowhow that they really wanted to
3 come here for the best.

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

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

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

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

22 [DELETED]

23 The political importance of such agreements is greater
24 than the economic importance in terms of what the Soviets will
25 do in terms of trade with the United States.

1 **SENATOR BRADLEY:** So you are saying that even with that
2 -- without Jackson-Vanick or Stevenson, that the Soviets
3 really would get some additional trade but not a whole lot
4 more because people would look it and say it really doesn't
5 make much sense? Even with credits and other things?

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

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

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

12 **MR. MACEACHIN:** We're circumventing --

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

14 **SENATOR BRADLEY:** Well, Chevron building a big
15 petrochemical?

16 **MR. ERICSON:** Yes. It is my view that guarantees lower
17 the cost. But it also sends a message from the US government
18 to the private sector not just the United States and elsewhere
19 --

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

22 **MR. ERICSON:** No. Chevron doesn't necessarily ask us.
23 If we give them Ex-Im Bank credits they would -- that they
24 purchased those guarantees. I mean there are guarantees that
25 have an economic meaning to the firm. But there's also a

1 government "annointment" I think that is imporant that goes
2 along with this.

3 [DELETED]

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

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

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

15 SENATOR BRADLEY: What, sanctity of contracts?

16 MR. ERICSON: Yes, sir.

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

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

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

24 SENATOR BRADLEY: Wouldn't they sign the big deals absent
25 the special --

1 MR. ERICSON: If they could get them. Yes sir.

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

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

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

14 MR. ERICSON: Emigration.

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

18 MR. ERICSON: That's right.

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

23 MR. ERICSON: That's their thrust. The Soviet thrust has
24 always been to depoliticize economic relations from the West's
25 perspective while politicizing it somewhat from their own.

1 But that's what they would argue. Let's separate the two.

2 MR. MACEACHIN: In fact, the long-term formulated
3 intelligence issue --

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

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

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

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

21 SENATOR BRADLEY: Right.

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

24 SENATOR BRADLEY: Chevron cannot get the deal.

25 MR. ERICSON: And they would say -- Chevron would say,

1 gee, I can't match that, and they would say, well, that's sort
2 of your problem. Why don't you go talk to your government.

3 **SENATOR BRADLEY:** Well, then that gets to ultimately a
4 judgment, do you think the greatest return on investment comes
5 in the Soviet Union or elsewhere.

6 **MR. ERICSON:** I mean, you have credit lines put in place
7 by a Western government to encourage their firms
8 participation. Not heavily subsidized at this point if
9 subsidize at all -- although you have the political risk
10 guarantees, -- [DELETED]

11 **SENATOR BRADLEY:** So that basically the view on economics
12 is to, you know, if somebody wants to invest or trade, they
13 can do that today. But they, as of today, can't get subsidies
14 or guarantees to do that.

15 **MR. ERICSON:** From the United States.

16 **SENATOR BRADLEY:** From the United States. Right?

17 **MR. ERICSON:** Yes, sir.

18 And if you take the position that no subsidies or
19 guarantees until the economy of the Soviet Union is reformed
20 sufficiently that you can make money there like you can make
21 money anywhere else without subsidies and guarantees, that is
22 one position. The other position is if you say, well, the
23 overall critical mass of reform, whether it is human rights,
24 troops whatever, has reached the point where we can regard
25 them like any other country. And then the third position would

1 be, say, well let's immediately give Gorbachev a little
2 carrot, let's immediately give him a reward for this 500,000
3 troop refuction. Would you argue that -- I mean, those are
4 three positins.

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

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

11 MR. ERICSON: Well, some. You lower the cost to the firm
12 to compete. What Pepsi Cola will tell you, what farmers will
13 tell you, is that we can't compete on world markets because
14 other countries are providing export credits to the Soviet
15 Union. If I play the Soviet Union part, I would say to the
16 United States, you provide export guarantees to the following
17 -- 75 exports to the follow 80 countries, all right.

18 SENATOR BRADLEY: Right.

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

22 MR. DESPRES: Friendly developing countries.

23 MR. ERICSON: And the Soviet Union would say we want
24 normal access. We don't want to be treated special one way or
25 the other. So his report is, you're saying for this to be

1 special treatment, it's not. It is treatment that is accorded
2 by Ex-Im Bank to most of the countries in the world. That
3 would be his argument.

4 **SENATOR BRADLEY:** That is his argument.

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

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

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

16
17
18
19
20
21
22
23
24
25