

EIR Special Report

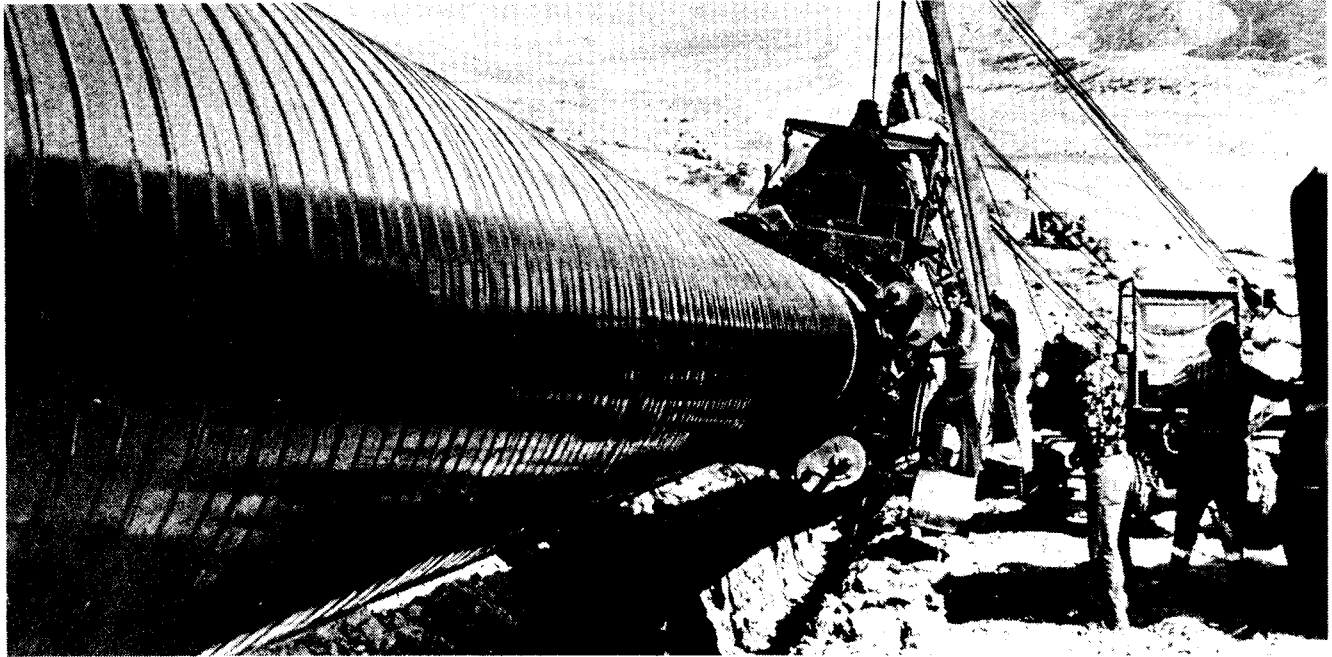
The hidden strengths of the Soviet economy

by Uwe Parpart, Contributing Editor

Before December of last year, the dangerous and illusionary “crumbling empire” perspective of developments in the Soviet Union and its East European allies had continually gained ground among Washington government, intelligence, and military circles. According to this not exactly original perspective, first vigorously promoted by Carter’s National Security Adviser Zbigniew Brzezinski and more recently publicly endorsed by President Reagan, bureaucratic mismanagement of the Soviet and East European economies, exacerbated by large military expenditures, will in the foreseeable future lead to increasing economic hardship, popular dissatisfaction, and unrest throughout the East bloc, and a buildup of centrifugal tendencies in the outer reaches of the empire (i.e., non-Russian Soviet nationalities, etc.). The final collapse will not be far behind.

But the evidently stabilizing effect of the Polish military takeover—some knowledgeable analysts, such as John Erickson of the University of Edinburgh (see *EIR*, Jan. 19, 1982), foresee an extended period of East bloc stability—will have dashed some fond expectations and perhaps calmer voices will now be given a hearing. Not, of course, if Henry Kissinger can have his way. Kissinger at a recent Washington gathering of the Committee for the Free World beseeched U.S. and West European policy makers that now more than ever is the time to be tough, to keep NATO together, to hold out at all costs, thus to ensure that in ten short years, the final victory will be ours.

We will show in the following that Brzezinski and Kissinger’s “crumbling empire” thesis and their policy recommendations based upon it must be rejected, if only because the principal pillar of their thesis—their analysis of the state of the Soviet economy—is thoroughly mistaken. Gross underestimates of major aspects of Soviet economic development are nothing new. In 1977, the CIA published completely untenable forecasts of Soviet energy resources and production; in 1976, the CIA was forced to admit that its estimates of Soviet military expenditures had been off by as much as 100 percent over extended periods of time. In both cases, gross strategic miscal-



APN/Sygnia

This gas pipeline linking Mozdok in the North Caucasus with Kazimagomed in Azerbaïdzhan will be completed soon.

culations would or could have been the consequences of such incompetence.

A just-concluded study of the Soviet economy as a whole, conducted by the Fusion Energy Foundation and the *Executive Intelligence Review*—with special attention to the military component—demonstrates that published accounts by private institutions (e.g. Wharton Economic Forecasting Associates) or government agencies on this topic are as inadequate and unreliable as the just-cited topically more limited CIA reports. The *EIR/FEF* study finds, contrary to prevailing “crumbling empire” theories, that:

1) while experiencing major difficulties especially since the second half of the 10th Soviet Five-Year Plan (1976-1980), the CMEA economies *retain a significant growth potential in the immediate future, augmented in particular by Siberian development;*

2) Soviet and East bloc economic difficulties, insofar as they are due to mismanagement and related social factors, will tend to be alleviated rather than exacerbated by enhanced military command influence in economic management and resource allocation;

3) the Soviet economy, since at least 1977, has sustained military expenditures averaging close to 50 percent higher than previous highest estimates by “Team B” analysts in the United States.

Ironically, therefore, those who could not resist pushing the Solidarność destabilization tactic to the brink, will soon find that they have brought about the opposite

of their intended result; nor, we should add parenthetically, should any illusions persist that forcing the Soviet Union into ever-increasing military spending will lead to the imposition of intolerable hardships upon the Soviet population. The Soviet population’s ability to tolerate such hardship is a known and tested quantity. The U.S. population’s is not.

Trouble in 10th Five-Year Plan

As just noted, the Soviet economy, after an extended period of growth in productivity and major categories of output throughout the early 1970s, was not able to sustain this performance during the 10th Five-Year Plan (1976-80). In the final phase of the plan, the situation reached crisis proportions in several sectors of the economy, most notably agriculture, and the growth rate of overall labor productivity collapsed to almost zero in 1979-80. Table 1 (see next page) provides a comparison of Soviet and U.S. economic performance in tangible goods for key categories over the past 20 years. The figures show that consumer goods as well as heavy industrial output fell to near zero-growth levels in the period after 1975. The LaRouche-Riemann model, used in all aspects of the *EIR/FEF* study and fed with official Soviet data* normalized for constant 1980 rubles, fully confirms a sharp post-1975 drop and draws attention to what must have been relatively sudden major investment decisions. These developments, however, should not be too consoling to American observers, since growth rates in the corresponding period for the United States were generally negative.

In first approximation, two general types of cause, both widely discussed in Soviet and western publications, can be held responsible for the dramatic collapse in Soviet growth rates after 1975:

1) There were bad harvests in 1972 and 1975, and consecutive bad harvests again in 1979 and 1980. Shortfalls in fertilizer production, and a general state of disrepair of harvesting equipment (of up to 50 percent!) and farm machinery in general (especially tractors) further exacerbated an already bad situation. The cumulative effect of the grain imports required to overcome agricultural production deficits and the diversion of investment to subsidize food consumption and production so taxed the economy that industrial output suffered.

2) While capital investment has absorbed over 25 percent of total economic output during most of the post-World War II period, the efficiency of capital investment (output per unit of capital) has declined severely in the 1970s. This is due to failures to eliminate major bottlenecks in the supply of materials (including metals) and energy and in the transportation infrastructure, which in turn has given rise to an ever-increasing, productivity-depressing backlog in unfinished construction. There is a clear trend of investment capital flowing preferentially into the machine-building and metal-working sector rather than into the crucial infrastructural, transportation, energy, chemicals, agricultural machinery, and food processing sectors.

Production and productivity losses resulting from bottlenecks have been further exacerbated by a tendency for capital investment to go to repairs of old facilities at the expense of new construction, and to "in-width" expansion of production in the same technological mode at the expense of the introduction of new technologies into the production process. The cumulative effect of such inefficiencies has been the development by the late 1970s of a serious threat to the further orderly and productive expansion of Soviet economic activity.

The 'super-military-spending' hypothesis

While points 1) and 2) describe the phenomena observed and reflected in Soviet economic statistics, they offer little help in the identification of the underlying causes, especially of the precipitous decline in growth rates after 1975. Generally, three different kinds of explanations, not necessarily mutually exclusive, but assigned different weight by different analysts, have been put forward:

1) Bureaucratic mismanagement, lack of economic freedom and incentives, etc. have been the favorite

explanation offered by the "crumbling empire" theorists. And there can be no question that widespread mismanagement and planning foul-ups exist; in fact, they are widely discussed in the technical as well as non-technical Soviet literature on economic subjects. There is clear evidence, in particular, of recognition of the negative consequences of the retrogressive capital investment

Table 1

Food, steel, machine tool, and energy production, U.S.S.R. and U.S.A.

Food production	1965	1970	1975	1980	
Red meat (kg. per capita)					
U.S.S.R.	38	44	50	48	
U.S.A.	78	83	78	77	
Grain (kg. per cap)					
U.S.S.R. (5 year ave.)	569	693	717	775	
U.S.A.	950	910	1160	1310	
U.S.S.R. average annual growth in per capita production, preceding five years:					
Meat (red)		+3.0%	+2.6%	-1.0%	
Milk		+3.4%	+0.7%	+0.3%	
Grain		+4.0%	+0.7%	+1.5%	
Steel production (kg. per capita)					
U.S.S.R.	397	480	557	559	
U.S.A.	617	580	490	447	
U.S.S.R. average annual growth in per capita production, preceding five years:					
		3.9%	3.0%	0.4%	
Electricity production (kilowatt/hours per capita)					
	1965	1970	1975	1979	
U.S.S.R.	2214	3065	4102	4721	
U.S.A.	5878	8000	9360	10493	
U.S.S.R. as percent of U.S.A.	38	38	44	45	
U.S.S.R. average annual growth rate, preceding five years					
		6.7%	5.9%	3.6%	
Machine tool output (thousands of units)					
	1960	1965	1970	1975	1977
U.S.S.R.	188.9	220.6	243.3	281.5	290.3
U.S.A.	62.2	93.3	73.5	92.7	89.6
U.S.S.R. average annual growth, preceding five years:					
		3.2%	1.9%	3.0%	1.5%
					(for 1976-77)

Source: James Grant for JEC

profile of the economy. However, it is the judgment of this writer that to the extent that justified dissatisfaction with management performance has led to "Libermanite" decentralization and "free-enterprise" experiment in the Soviet and East bloc economies, such experiments have not succeeded and have actually contributed to a worsening of economic performance. The often-cited "Hungarian model" is hardly relevant in this context; decentralized management and a market-style incentive system are limited to certain specialized sectors of agricultural production and the units concerned were permitted not to incur (or have charged to them) infrastructural and other costs which previously depressed their profitability. The principal problems to be resolved in agriculture are cultural and social. In industry, the major roadblock to be overcome is the effective translation of scientific and technological advances into broad-based productive techniques. Any attempt to blame the centrally planned character of the Soviet economy itself for the recent downturn clearly ignores the sharply conjunctural character of this crisis.

2) The relatively depressed state of the world economy in the second half of the 1970s has been cited by both Soviet and western analysts as a significant contributing cause of Soviet difficulties. In light of the fact that the Soviet economy is the most independent of the United States and Western Europe of any country in the world, importing in every category less than 10 percent of its own production, the only question is the extent to which the depressed world economy has affected Soviet performance. The effect is probably larger than the 10 percent import figures indicate. Especially in the area of new, high-technology-based investments the Soviet economy has relied to a much higher degree on western imports, and in some areas, such as the chemical industry, up to 30 percent of total investment has been imported from and co-financed by the United States and Western Europe. Since world-inflation thus specifically hit highly sensitive new investment categories, and since high technology investments are the principal motor of economic growth, there can be no question that imported inflation and related factors have had considerable influence on recent Soviet and CMEA economic development. Still, the LaRouche-Riemann model analysis of the Soviet economy shows that by themselves world depression shocks were nowhere near sufficient to account for the post-1975 downturn in the Soviet economy. The single most significant factor is clearly:

3) massive increased military spending. The

exact size of such increased spending and the historical and future consequences for the Soviet economy of the level of military spending we have determined to now exist and to have existed throughout much of the 10th Five-Year Plan, will be analyzed in Steven Bardwell's discussion below. As already indicated, we have found that for at least five years now Soviet military expenditures have been up to 50 percent higher than the highest previous U.S. estimates.

It is our contention that particularly the dramatic decline in Soviet industrial productivity in the past several years can be uniquely explained on the assumption of our "super-military-spending" hypothesis. The argument is as follows:

In any economy, rapid increases in military spending can be achieved only at the expense of a) the level—qualitatively as well as quantitatively—of consumption of the population (including health and social services, etc.), and b) new investment, especially in infrastructural terms.

The immediately observable consequences would be pressures on the consumer goods sector, and a rapid further proliferation of bottlenecks in all non-military sectors of the economy as the demands of increased military production and capacity utilization and expansion put heavy new strains on an already stretched transport and energy supply system. Massive new delays in civilian construction of the reported kind would be inevitable, with immediate dire consequences for productivity figures.

Assessing the empirical evidence before us, we conclude that the Soviet economy has in fact given off all the signs one would expect if the "super-military" thesis were true. The effect of the depressed world economy on the CMEA sector must be reassessed in this light: the net profitability of the Soviet economy as a whole might have been high enough to cushion the civilian sectors against the worst consequences of the increased military budget; but imported western recession removed that cushion.

What then lies ahead for the Soviet economy? Viewed in purely economic terms, Soviet military spending at the present level is sustainable only if pre-1975 and higher productivity growth rates are restored to the economy as a whole. The question then comes down to identifying whether there exist any margins immediately in the economy to accomplish such a productivity recovery, and whether there exist a somewhat longer term potential in the economy which would allow stabilization and recovery to be maintained even under still-worsening world economic conditions. It is our conclusion that both the technical economic and the encompassing political preconditions exist to allow for an in-depth reversal of the present crisis situation.

In the short term, the added influence of the military in all sections of government, of which the Polish military takeover presents the most radical case, will lead to more effective and decisive moves against the grossest forms of economic mismanagement and counteract negative consequences of decentralization. Ironically, therefore, what forms of obvious mismanagement exist in the East bloc economies provide under the changed political circumstances after Poland a certain significant margin of economic recovery. In the somewhat longer run, this same added military influence defines an optimal chance of more immediately bringing to bear on the Soviet economy as a whole the thinking and leadership of the scientific and military elite. This elite has a greater chance than the entrenched bureaucracies of instilling a fighting morale in the population and of mobilizing the Soviet economy from the standpoint of those areas of strength which give it potential advantages over its U.S. counterpart. Aside from general structural consideration discussed below, these areas of great potential strength in the Soviet economy are identifiable as follows:

1) a large and rapidly growing pool of scientific and engineering manpower characterized by unsurpassed excellence precisely in certain fields most intimately related to future economic and military strength. These areas include the theoretical branches of mathematics, physics, astronomy, electrochemistry, and fluid dynamics. Soviet excellence in the field of atomic particle acceleration is well-known, and Soviet efforts here point to an early development of controlled thermonuclear fusion power, as well as the development of a particle-beam weapons system. Soviet laboratories also lead in laser research, particularly the use of lasers in fusion research, and as weapons against missiles and satellites.

2) The sizeable and growing impact on the economy as a whole of the large Siberian infrastructure projects, elaborated below.

3) The build-up in the past 20 years of an impressive and growing reservoir of machine tools. In this same period, total U.S. machine tool stocks decreased by 7 percent, while the Soviet Union experienced a 250 percent increase.

The hidden strength of the Soviet economy lies primarily in the potential inherent in these three crucial areas. Greater influence of the military-scientific complex on the Soviet economy as a whole defines the imminent possibility that this potential will be unlocked. And among civilian economists, as well, there appears to be an increasing awareness of what is required.

*Source: *Narodnoe khozyaistvo SSSR v. 1978q.*, supplemented by figures from the 1979 and 1980 editions and data of *Ekonomicheskaya gazeta*, no. 5, 1982.

Soviet military costs:

by Steven Bardwell, Military Strategy Editor

All experts (both real and self-advertised) agree that the most problematic aspect of studying the Soviet economy is the extent and effect of the Soviets' military spending. However, a few facts are universally acknowledged:

1) Military expenditures are grossly understated in the Soviet budget as officially prepared;

2) Actual Soviet military expenditures are greater (as a percentage of total output) than those of the United States;

3) The overall quantity of Soviet arms expenditures has increased secularly over the past 30 years.

The standard estimates of the Soviet military budget are reproduced in Table 1. All of these estimates use the same methodology to arrive at a figure for the Soviet military budget: the official Soviet output figures are taken to represent a sum total of economic output, and subjective criteria are used to determine the distribution of that output between civilian and military customers. Even the careful estimates of Soviet watcher W. T. Lee use this "inventory" method; his disagreement with the estimates of the CIA and Stanford Research Institute is that, first, they mistakenly include some output from the machine-building and metalworking industries in the category of the civilian economy when Lee's contention is that it should be included in the category of the military, and secondly, that a portion of the science budget is actually military R&D. However, even Lee's figures, if correct, only show a Soviet military budget which is comparable to that of the United States, larger in percentage terms but nearly the same in procurement terms when all uncertainties of dollar-ruble conversions, differences in pay scales, and so forth are taken into account. These marginal differences between the Soviet and U.S. military budgets are then the basis for heated

A more realistic picture

debate between policy-makers who all agree on this method of evaluation.