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CLASSIFICATION
DOWNGRADE TS 107 15 01 1994 AN: D890098-0597

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ACTION SS-00

INFO LOG-00 ADS-00 /000 W
R 031826Z FEB 89 050047 041857Z /38
FM AMEMBASSY MOSCOW
TO SECSTATE WASHDC 4104
INFO MOSCOW POLITICAL COLLECTIVE

Col A
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9/8/94

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EXDIS

S/S: PLEASE PASS TO NSC FOR GEN. SCOWCROFT

E.O. 12356: DECL: OADR
TAGS: FOUO, ECON, UR
SUBJECT: THE SOVIET UNION OVER THE NEXT FOUR YEARS

- SECRET - ENTIRE TEXT.
- BEGIN SUMMARY. IN MY PERSONAL ASSESSMENT, WE CAN PLAN OUR FOREIGN POLICY WITH A HIGH DEGREE OF CONFIDENCE THAT THE SOVIET LEADERSHIP'S PREOCCUPATION WITH INTERNAL REFORM WILL CONTINUE THROUGHOUT THE FIRST BUSH ADMINISTRATION. IT IS ALMOST AS CERTAIN THAT PERESTROIKA WILL NOT BRING MARKED IMPROVEMENTS TO THE SOVIET ECONOMY IN THIS PERIOD AND THAT INTERNAL RESISTANCE TO MAJOR ASPECTS OF THE REFORM PROGRAMS WILL FORCE THOSE AT THE SOVIET HELM TO TACK AGAINST THE WIND MUCH OF THE TIME. THE POTENTIAL FOR SEVERE OUTBREAKS OF PUBLIC DISORDER WILL GROW. THIS WILL CONTRIBUTE TO A SENSE OF ANXIETY IN THE SUPREME COUNCILS OF THE PARTY AND STATE, THOUGH I BELIEVE THAT THEY IN THE END WILL MAINTAIN ORDER.

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- MIKHAIL GORBACHEV IS LIKELY TO REMAIN THE TOP

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SOVIET LEADER FOR AT LEAST FIVE (PROBABLY TEN) MORE YEARS, BUT MY CONFIDENCE IN THIS PROSPECT IS LOWER THAN THAT IN THE CONTINUATION OF A SOVIET PREOCCUPATION WITH INTERNAL REFORM. THAT PREOCCUPATION, COMBINED WITH THE MULTITUDINOUS DIFFICULTIES OF FORCING THE SOVIET MASTODON TO ADAPT TO THE MODERN TECHNOLOGICAL WORLD, WILL BRING AN INEXORABLE PRESSURE TO CURTAIL THE AMOUNT OF RESOURCES DEVOTED TO THE MILITARY SECTOR.

4. IN SUM, THE SOVIET UNION HAS, IN EFFECT, DECLARED THE BANKRUPTCY OF ITS SYSTEM, AND JUST AS WITH A CORPORATION WHICH HAS SOUGHT THE PROTECTION OF CHAPTER XI, THERE IS NO TURNING BACK. END SUMMARY.

5. CRYSTAL BALLS ARE NEVER AS CLEAR AS ONE WOULD LIKE, AND THEY TEND TO CLOUD OVER DURING TIMES OF RAPID AND FUNDAMENTAL CHANGE. NEVERTHELESS, IT SEEMS TO ME THAT WE CAN MAKE SOME ASSUMPTIONS ABOUT THE SOVIET DOMESTIC SCENE OVER THE NEXT FOUR YEARS WITH A HIGH LEVEL OF CONFIDENCE. THIS MESSAGE WILL ATTEMPT TO ENCAPSULATE MY PERSONAL ASSESSMENT OF THE MOST SALIENT TRENDS. SUBSEQUENT MESSAGES WILL LOOK AT PROSPECTS FOR SOVIET FOREIGN POLICY AND US-SOVIET RELATIONS.

FOCUS ON INTERNAL AFFAIRS

6. I BELIEVE WE CAN STATE WITH NEAR CERTAINTY THAT THE CURRENT SOVIET PREOCCUPATION WITH INTERNAL REFORM WILL CONTINUE AT LEAST FOR ANOTHER FOUR YEARS -- AND PROBABLY MUCH LONGER. THIS PREOCCUPATION WILL NOT
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PRECLUDE AN ACTIVIST FOREIGN POLICY (AS WILL BE DISCUSSED IN A SEPARATE MESSAGE) BUT WILL MEAN THAT FOREIGN POLICY DECISIONS WILL BE HEAVILY -- AND OFTEN DECISIVELY -- INFLUENCED BY DOMESTIC NEEDS AND IMPERATIVES.

7. WHILE THIS IS NOT THE FIRST TIME SOVIET LEADERS HAVE ATTEMPTED SOME CHANGE IN SOVIET POLITICAL AND ECONOMIC PRACTICE, TODAY'S PERESTROIKA IS POTENTIALLY THE MOST PROFOUND -- AND THEREFORE MOST DESTABILIZING

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PRESUMABLY, AN INITIAL ATTEMPT WOULD BE MADE TO APPLY THE THROTTLE TO THOSE ASPECTS OF THE REFORM PROCESS WHICH ARE CONSIDERED PARTICULARLY PAINFUL OR DESTABILIZING. MORE SEVERE LIMITS MIGHT BE PLACED ON THE EXPRESSION OF OPINION AND ON UNOFFICIAL GROUPS, NATIONALIST TENDENCIES MIGHT BE OPPOSED MORE FORCEFULLY, IMPLEMENTATION OF A MARKET PRICE MECHANISM POSTPONED FURTHER, AND PRIVATE ENTREPRENEURSHIP ACTIVELY DISCOURAGED. SUCH SLOWDOWNS OR REVERSALS OF POLICY COULD OCCUR. AS A MATTER OF FACT, THEY CAN OCCUR EVEN IF GORBACHEV STAYS IN POWER. BUT SUCH SHIFTS WOULD ONLY CAUSE THE ECONOMY TO SINK DEEPER INTO THE QUAGMIRE OF INEFFICIENCY, TECHNICAL BACKWARDNESS AND UNREQUITED HUMAN NEEDS. THE SOVIET LEADERSHIP'S PREOCCUPATION WITH DOMESTIC PROBLEMS WOULD CONTINUE AND EVENTUALLY ANOTHER RADICAL REFORMER WOULD LIKELY EMERGE. THERE IS A LOT OF TRUTH IN GORBACHEV'S FREQUENT ASSERTION THAT PERESTROIKA IS CONDITIONED BY OBJECTIVE

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INFO MOSCOW POLITICAL COLLECTIVE

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S/S: PLEASE PASS TO NSC FOR GEN. SCOWCROFT

E.O. 12356: DECLASSIFIED
TAGS: PQDY, ECON, UR
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FUNDAMENTALS. EARLIER ATTEMPTS AT "REFORM" TRIED TO
KEEP THE IDEOLOGY INTACT AND SIMPLY CHANGE THE WAY IT
WAS IMPLEMENTED. THIS SUCCEDDED TO ELIMINATE THE
GROSSER ASPECTS OF STALINIST TERROR, BUT NOT TO
IMPROVE THE MANAGERIAL EFFICIENCY OF THE ECONOMY.

9. WHEN GORBACHEV FIRST CAME TO POWER IT APPEARED
THAT HE, TOO, WAS GOING FOR SUPERFICIAL "FIXES" IN
ECONOMIC MANAGEMENT. NEVERTHELESS, AS HIS PROGRAM
DEVELOPED, IT BEGAN MORE AND MORE TO CONFRONT THE
IDEOLOGICAL FOUNDATION OF THE OLD PRACTICES -- AND TO
CHANGE THE OLD ASSUMPTIONS.

10. THIS PROCESS FOLLOWED SEVERAL PATHS. ONE WAS AN
ALL-OUT ATTACK ON STALINISM, WHICH IMPLICITLY -- AND
SOMETIMES EXPLICITLY -- DENIED THAT THE STALINIST
SYSTEM OF STATE MONOPOLY WAS EVEN A LEGITIMATE FORM
OF SOCIALISM. CONCOMITANTLY, A GRADUAL

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REHABILITATION OF NON-STALINIST MARXIST THINKERS SUCH
AS BUKHARIN HAS OCCURRED, WITH THE OVERT INTENT OF

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Reviewed by: <u>Steele</u>	
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PROVIDING VARIANT AND MORE CONGENIAL INTERPRETATIONS OF MARXIST PRINCIPLES.

11. LENIN HAS REMAINED SACROSANCT, BUT HIS UTTERANCES ON TOPICS OF THE DAY WERE SO VARIED THAT THE DILIGENT RESEARCHER CAN FIND A QUOTE TO BOLSTER VIRTUALLY ANY PROPOSITION. "LENINISM" IN EFFECT BECOMES WHAT THE CURRENT LEADERS WANT IT TO BE -- EVEN IF THIS REQUIRES AN UNACKNOWLEDGED TRANSFORMATION OF MARXISM ITSELF.

12. AMONG THE MAJOR IDEOLOGICAL POINTS WHICH THE REFORMERS ARE TRYING TO ESTABLISH ARE THE FUNDAMENTAL ROLE OF THE MARKET IN DETERMINING ECONOMIC VALUE (WE DON'T SEE MUCH ON MARX'S LABOR THEORY OF VALUE ANYMORE!!!) THE IMPORTANCE OF FOSTERING INDIVIDUAL INITIATIVE AND TAPPING INDIVIDUAL CREATIVITY; THE NECESSITY FOR MORE POWERFUL ECONOMIC INCENTIVES; THE NEED TO SHIFT FROM "ADMINISTRATIVE" TO "ECONOMIC" (READ MARKET) CONTROLS OF ECONOMIC LIFE; AND -- NOT LEAST -- A DOWNGRADING OF THE "CLASS STRUGGLE" TO A POSITION SUBORDINATE TO THE "COMMON INTERESTS OF MANKIND."

13. NONE OF THESE PROPOSITIONS HAS FIGURED PROMINENTLY IN PAST MARXIST THINKING -- TO PUT IT MILDLY -- AND AN INTENSE STRUGGLE IS STILL UNDERWAY HERE OVER THEM. MANY (INCLUDING LIGACHEV) ARE OPENLY SKEPTICAL ABOUT BASING SO MUCH ON MARKET FORCES, AND THE PRACTICAL EFFECTS OF MOVING IN THAT DIRECTION (RISING PRICES) ARE FIERCELY RESENTED BY AN

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OVERWHELMING MAJORITY. STILL, IT SEEMS CLEAR THAT IF PERESTROIKA EVER IS MADE TO WORK, ULTIMATE ADOPTION OF THESE VERY UN-MARXIST PRINCIPLES WILL BE ESSENTIAL.

"DIVIDENDS" SLOW TO MATERIALIZE

14. GIVEN THE DEPTH OF THE SOVIET UNION'S PROBLEMS, AND THE DIFFICULTY OF BREAKING THROUGH INSTITUTIONAL AND ATTITUDINAL BARRIERS, IT SHOULD NOT BE SURPRISING THAT CONCRETE ECONOMIC DIVIDENDS IN THE FORM OF FOOD AND GOODS IN THE SHOWS HAVE BEEN SLOW IN COMING. BUT

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WHILE IT SHOULD NOT BE SURPRISING, THE GORBACHEV LEADERSHIP SEEMS TO HAVE BEEN SURPRISED. THEY CLEARLY HAVE BEEN REQUIRED TO STRETCH OUT THEIR PLANS AND ADJUST THEIR INTERIM TARGETS DOWNWARD, EVEN AS THEY WERE DEVISING EVER MORE AMBITIOUS FINAL GOALS.

15. AN OBJECTIVE LOOK AT THE MAJOR ECONOMIC INITIATIVES LAUNCHED UNDER THE BANNER OF PERESTROIKA SHOWS A RECURRENT FLAW. TOP SOVIET LEADERSHIP IS HAVING TO REVISIT EACH INITIATIVE IN ORDER TO SUSTAIN OR REBUILD MOMENTUM WHICH IS OTHERWISE LOST WHEN THE LEADERSHIP ITSELF IS NOT FOCUSED ON IT. THE POLITICAL THRUSTS OF EACH MAJOR ECONOMIC INITIATIVE (E.G., LAND-LEASING, CONSUMER GOODS, FREE TRADE ZONES, FINANCIAL AUTONOMY, INDUSTRIAL POLICY, CONSUMER GOOD PRODUCTION) HAVE FAR OUTDISTANCED ECONOMIC SUBSTANCE, AND PROVISION OF THE SPECIFICS NECESSARY FOR IMPLEMENTATION AND OVERCOMING RESISTANCE TO REFORM AT ALL LEVELS. MOREOVER, THE

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