

Annex to Letter of June 22nd 1967
to Ambassador Watson from the Danish
Member of Sub-group 1.

Danish Comments to the Questions on the
Soviet Union in Annex I, pp. 13-14, in
the Rapporteur's Paper of May 6, 1967.

I (a) The economic reform, which was originally planned to extend over three years ending in 1968, is 6 months behind schedule.

Further delays are likely, amongst other reasons because of capital shortages, lack of planning of investment programmes, inadequate labour efficiency, and psychological difficulties in adapting a centrally managed economy to decentralization with increased responsibilities for individual enterprises.

In foreign policy, this situation makes Soviet leaders more interested in limiting the scope of international conflicts where risks of Soviet involvement exist, politically as well as economically.

(b) The Soviet defence budget for 1967 amounts to 14,5 billion roubles, equal to 13,2 per cent of total expenditure.

Bearing in mind, among other things, the demand for more consumer goods and dwellings and the need to carry out economic reforms, civilian technical assistance programme etc., the Soviet Union is not likely to be willing and able to increase its defence budget materially.

Thus, it is unlikely that the Soviet economy to-day would be able to sustain a complete development of a nuclear missile defence (ABM-system).

(c) In the final analysis, the reforms initiated in Soviet agriculture in 1965 are estimated to have reduced the inefficiency of the agricultural sector.

At the present time, the good harvest of 1966 - an all-time record - probably rendered the Soviet Union self-sufficient. The Soviet authorities are even endeavouring to export certain products, e.g. butter. To-day traditional exporters of agricultural products to the Soviet Union find that their exports have practically ceased.

Bad harvests are still a likely contingency, but the agricultural sector is not as vulnerable as previously. Net yields will probably increase if the high percentage of waste can be reduced.

(d) It is a fact that the idea of a world revolution has now been modified. To-day, the primary internal aim is to build up and consolidate communism.

Adaptation of ideology to the existing facts is not expected to give rise to major problems, seeing that Party controls are being adapted accordingly and have not so far shown any real signs of weakness.

Such discussions as are, in fact, going on are started almost exclusively by young intellectuals and technocrats who now constitute something resembling pressure groups, but so far they aim only at a certain liberalization of cultural activities.

(e) The process of modernization which is going on in the Soviet community in general and in the Soviet economy in particular is primarily one of decentralization. This is an indispensable necessity if the development of the Soviet Union is to continue.

It is very difficult to change the attitude of the federal agencies (ministries) which have been accustomed to being in complete command. This change is making slow progress.

Decentralization is hardly feasible without a certain liberalization and a rather wider margin for consumer preferences. Such a more liberal policy, which takes more account of the consumers' wishes, is perhaps necessary not only for internal political reasons but also for reasons of economic efficiency. It is natural to exploit this situation in foreign policy by challenging the West to a welfare and production race and, through a policy of détente, to curb the cost of the race in technological armaments which are becoming more and more expensive.

There is a potential conflict between the aim of achieving greater economic efficiency through a certain decentralization and the immediate interest of Party functionaries in maintaining their positions of power. The reforms now under way in Eastern Europe and - more cautiously - in the Soviet Union will tend to give added influence to groups who have not obtained their positions solely through the Party. In view of the Party's domination, the present conflict probably takes the form of rivalry between more or less conservative elements inside the Party rather than between the Party and other pressure groups.

The more dogmatic (Stalinist) Party bosses who are always ready to take over if progress is not continuous and ideologically well motivated are likely - if the present course continues - to see their influence diminishing. This does not mean that the Khrushchev policy of two steps forward and one back will not be seen again in internal politics, but economic necessity and demands from a growing and increasingly important class of technologists

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will, over a term of years, undoubtedly improve the economic position of the Soviet citizen and his social security.

(f) It is a fact that the people demand more consumer goods. In this jubilee year, the Soviet authorities have met these demands to a greater extent than in previous years. All other things being equal, these concessions should per se lead to new and bigger demands.

As the supply of consumer goods offered for sale has been of modest proportions for several years, a fairly large amount of potential buying power will probably be in the market for consumer goods, especially after the wage increases allowed (though on a modest scale) in recent years. It is likely that the money available will be spent on the most coveted (imported) goods; this will tempt the authorities to raise the prices of such goods.

Attempts have been made to absorb this latent buying power - for instance by offering dwellings for sale - but these attempts can hardly have absorbed all the money available.

(g) As a result of the propaganda, the Soviet citizens are firmly convinced that the Soviet Union, by virtue of its military potential, would be able to resist any aggressor. This does not mean, however, that there is no natural fear of war. Especially the Sino-Soviet conflict has generated rather widespread fears of attack which the powerful weapons of retaliation might not be able to prevent.

The same conviction is hardly to be found among military and other Soviet leaders in general. This is borne out by the decision to establish an ABM defence. It is probable that the underlying reason for this decision is fear of the potential, irrational aggressor: Mainland China - but it could also be seen as a means of putting pressure on the United States with its reportedly bigger missiles capacity. Other possible explanations are the traditionally defensive attitude and the dislike of being involved in fighting on several fronts.

The industrial development that has taken place in the Soviet Union has given the Soviet leaders a vast economic and military strength. It is the pre-condition for the manufacture of the weapons by which the Soviet Union contributes to the nuclear balance and for the auxiliary services - military and civilian - which support Soviet foreign policy in the developing countries.

On the other hand, the development of the Soviet Union into a modern industrialized state has restrained the leaders' freedom of action in external affairs. This follows from the fact that their freedom of action internally has been curtailed. With heavy internal commitments

to raise the standard of living, the possibilities for external adventures will be substantially reduced. All that remains are the traditional means - short of war - by which a great power can uphold its status, seeing that in the light of the nuclear perspectives and the balance of power the Soviet leaders will undoubtedly understand that a nuclear war is out of the question.

II (a) The capability of the United States forms the basis of Soviet strategic planning. The Soviet leaders are endeavouring to achieve military balance or may even be attempting to shift that balance in their own favour. However, this would seem unrealistic from an economic point of view, see also I,(g), above. Their concentration until now on creating balance with respect to missiles may have tended to prevent a build-up of more mobile forces to be used outside the Soviet Union with the resulting temptation of direct engagement in conflicts. It seems, however, that the traditional Soviet dislike of military engagement outside Soviet territory is still the main reason for the Soviet restraint.

(b) The Soviet attempts to produce a split in the Western world (e.g. the relatively positive Soviet policy vis-à-vis France, coupled with attacks on the Federal Republic of Germany and, for instance, the propaganda relative to Denmark and Norway) suggest, among other things, a keen desire to weaken the NATO Alliance, but on account of the Federal Republic of Germany there is hardly any wish for complete dissolution of NATO. Without NATO, Denmark and Norway for example, would probably be subject to vigorous Soviet pressure, politically as well as economically. As Soviet policy, traditionally, is realistic, a politically strong NATO would induce the Soviet to take that factor into consideration in the shaping of its own policy and, all other things being equal, seek peaceful co-existence with the NATO countries.

(c) and (d) One of the immediate aims of the Soviet Union is to preserve the cohesion of the Eastern bloc and the communist countries. To that end, the picture of the aggressive Western powers is held out as a terror, but this is no longer as effectual as it used to be, one of the reasons being that certain Eastern European countries have become aware of the peaceable intentions of the West. Another apparent Soviet aim is to gain influence in the developing countries with a view to winning their support in the United Nations and elsewhere and, on the whole, to be able to add as much weight as possible to the Eastern side of the scales. This gives rise to the Soviet rivalry with the West. Soviet propaganda and the struggle for the political support of the

developing countries reveal the difficulty in keeping alive the Soviet image of the Western powers as aggressive imperialists - except, of course, in the Vietnam conflict.

(e) See also II, (b) The Soviet Union seems to take every opportunity to examine this possibility. To all appearances, such a probing was made during de Gaulle's visit to Moscow. The whole propaganda machinery which aims at destroying the confidence of the European member states of NATO in the United States should, to some extent, be viewed in this context.

Seen through Western eyes, the effect is negative because the Soviet Union seems tempted, in the given situations, to play a waiting game in the hope to obtain a better negotiating position through a Western split. This is perhaps one of the explanations of the sluggishness and wait-and-see attitude which often characterize Soviet foreign policy.

(f) The relative economic progress of the West is an incentive to the Soviet economy because economic strength is an import factor in the balance of power. /ant Herein lies also one of the explanations of the Soviet opposition to economic groupings in the West. The relative wealth in the West goes to explain why the Soviet Union to-day seems to attach less weight to relations with Marxist parties in the West and use them to promote Soviet policy within world communism rather than for fifth columnist activities.

(g) As economic consolidation is the primary objective - at least for a considerable number of the Soviet leaders - commercial and scientific contacts with the West are of great significance. This is borne out, inter alia, by the marked Soviet interest in relations with highly industrialized Western countries, such as the United Kingdom, Italy, etc.

One of the effects of the consolidation is slow improvement of the standard of living, resulting in mounting public demands for keeping up the progress. The consumer interest, which it is sought to meet - especially in the year of the jubilee, creates - all other things being equal - a wish for peaceful developments and will in ever increasing measure put its stamp on Soviet policy. Another effect is greater dependence on Western countries in the future. As a case in point, the Soviet motor car industry will become dependent on Italy as a result of the Fiat agreement.

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III (a) The three "isms" play an evident part in the incipient dissolution of the Eastern Bloc. The risks inherent in these "isms" may be reflected in the Soviet reaction to the way in which the German Federal Republic has exploited this situation in Bonn's new policy vis-à-vis Eastern Europe, which, until a few years ago, would not have caused the Soviet authorities much concern because they were in full/developments in Eastern Europe. The paradox in these developments is, therefore, that they may delay the reputed Soviet endeavours to arrive at a modus vivendi vis-à-vis the Western world.

(b) Soviet relations with Mainland China pose a major problem to the Soviet leaders, partly because of the classical conflict arising out of Chinese aspirations for expansion, partly because of their rivalry for leadership of world communism and for influence in developing countries. The Soviet leaders' futile attempts to convene a communist world conference may reflect a certain Soviet desperation.

Sino-Soviet relations appear to have influenced practically all decisions to exercise more restraint in international politics and a growing awareness that Soviet interests run parallel with those of the Western powers.

(c) and (d) The uneven geographic distribution of Soviet aid may be taken to reveal Soviet interests and strategy and may even in some cases stand in the way of general Soviet endeavours to recruit uncommitted countries for Soviet policies. Efforts are made to bolster what is, in fact, a relatively modest volume of aid, even to key countries (e.g. the United Arab Republic, Syria, Somalia) by means of declarations promising political support, exchanges of delegations with bombastic cant, etc. But these efforts may also make Soviet political support stronger than it would otherwise have been. The Soviet Union cannot yet afford to start conflicts by proxy because that would require immediate increases in Soviet assistance. For the time being, at any rate, the Soviet Union will probably endeavour to cool down the temperature of conflicts - for instance in the Middle East.

Because of its food situation, the Soviet Union is in a particularly weak position to give aid to relieve famine - see item I (c) above. In concrete cases, the Soviet Union tries to dress up this situation by giving conspicuous technical assistance under normal co-operation agreements which provide for long-term low-interest Soviet loans for purchases of Soviet products or, in other words, more window dressing than effective aid.

Den 24. juni 1967.