

## The Embattled Soviet Economy

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**T**HE WORLD'S most popular man is in trouble at home. Soviet leader Mikhail Gorbachev enjoys one success after another in foreign affairs. In the eyes of the international community, it seems, he can do no wrong. Recent opinion polls give him approval ratings of seventy-one percent in the United States and better than ninety percent in West Germany.

On the domestic front, however, Mr. Gorbachev is struggling. His program of economic reform is a shambles. He has been unable to modernize industry or boost its performance. Growth of GNP is about the same as it was during the Brezhnev "Era of Stagnation." The economy would be flatter still if Mr. Gorbachev had not retreated from his antibooze campaign and allowed production of alcohol to increase in 1988. Before that, a surge in home distilling had led to a loss in alcohol sales taxes and contributed to a sugar shortage.

According to the Soviet press, "interruptions in the supply of beef" affect eighty percent of the major cities. Standards of living have not improved, and dissatisfaction is on the rise. In Siberia, Mr. Gorbachev faced crowds angry about the shortage of consumer goods.

A report on the Soviet economy, delivered to the Joint Economic Committee of Congress April 14 by the Central Intelligence Agency and the Defense Intelligence Agency, paints a dismal picture. In 1988, the report estimates, the fiscal deficit rose to roughly nine percent of Soviet GNP.

"The crucial machinery sector continued to lag as even high-priority state orders for many types of machinery were not fulfilled," the report says. Much of the machinery produced in 1988 did not live up to quality expectations. Almost a quarter of the new machines purporting to meet world technological standards failed to do so.

Entrenched ministries continue to prop up unprofitable enterprises and undermine reform. State orders accounted for forty percent of industrial production last year, despite an effort to drive down that percentage. The plan for 1989, which projects state orders at no more than forty percent of the total, appears to be another flop in the making. Unsatisfied demand for consumer goods last year was the equivalent of about twenty percent of the total output of consumer products and services. Goods that were available were often priced higher than before.

Industrial efficiency reforms having failed, Mr. Gorbachev says he will shift some defense-production resources to consumer output and reduce military spend-

ing by 14.2 percent. According to the CIA-DIA report, Soviet military spending rose by three percent after inflation in 1988 with emphasis on procurement of new weapon systems. This is about the same rate of growth as in the past.

There is no doubt that military spending is a major drain on the Soviet economy, but the actual amount of that spending is uncertain. As recently as March, Soviet Defense Minister Dmitri Yazov repeated the transparent fiction that the military gets only three percent of GNP. Mr. Gorbachev revised the party line May 30, admitting to military expenses at nine percent of GNP. In their report, CIA and DIA reaffirm their previous estimate that the Soviets spend fifteen to seventeen percent of GNP on defense.

An independent analysis, published May 16 by the Committee on the Present Danger, finds that, in fact, Soviet military costs are between twenty-three and twenty-five percent of GNP and consume about half of the Soviet budget. Other estimates, the Committee explains, do not count expenses—such as most military R&D, pensions, relevant parts of the space program, and the war management system—which would be included in a Western defense budget and which are part of the overall Soviet defense effort. By this analysis, Soviet military spending is rising at seven percent a year.

In a program this large, relatively untouched by reform so far, Mr. Gorbachev should be able to find significant savings from marginal sacrifices. If he can draw down forces deployed along the NATO and Chinese borders, he may be able to reallocate appreciable resources to his economic problem without severe penalty to arms production or the defense industrial base.

The truth is that nobody—including Mr. Gorbachev—knows for sure what the USSR spends on defense. There is no way to account for the many special advantages and services provided free. It is obvious, however, that Soviet military power continued to grow while Mr. Gorbachev preached peace and brotherhood abroad. It is also reasonably clear that he is running out of options for dealing with a mess that he cannot ignore.

Less apparent is the extent to which these factors explain Mr. Gorbachev's international maneuverings and how his reform movement fits into long-range Soviet plans. The prevailing indication, however, is that military power retains its traditional priority in the Soviet scheme of things. Unfortunately, we cannot confirm from hard evidence that a basic transformation is yet under way. ■