

SECRET/SENSITIVE

THE WHITE HOUSE
WASHINGTON

MEMORANDUM OF CONVERSATION

PARTICIPANTS: Robert M. Gates, Assistant to the President
and Deputy for National Security Affairs
V.I. Kryuchkov, Chairman, State Committee
for Security (USSR)

PLACE and TIME: KGB Headquarters (New Building)
Dzerzhinskaya Square, Moscow
1500 - 1715, 9 February 1990

Kryuchkov received Gates in his office in the New KGB Building. After exchanging greetings, Gates informed Kryuchkov that he had just left the meeting between Gorbachev and Secretary Baker, which was still underway after more than three hours. Gates said that Gorbachev had been explaining what had taken place during the just concluded Central Committee plenum, joking that the latter had been so eventful that it would take all day for Gorbachev to finish.

Kryuchkov said that the plenum had been heated and had accomplished a great deal. It had not, he added, satisfied those who had hoped to see a change of leadership, or some kind of scandal. There had of course been sharp discussion, even between members of the Politburo. This was not the first time that had happened, of course, but never before had the details of such disagreements been published in the press. Kryuchkov continued that he had just come from a Politburo meeting, and knew from many such meetings that discussions there were often sharp over interpretations of law, personnel changes, and so on. He assumed that such things happened in the U.S. as well.

Kryuchkov continued that all of the materials of the plenum would be published. Hundreds of suggestions had been submitted

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for changes to the political platform, and they would be published as well, though in the Izvestiya of the Council of Ministers, not in the daily press. Everything, he grimaced, was now published. He said this made things easier for the US "Services" and therefore hoped they had a proper understanding of developments in the USSR.

Gates said that this public debate made it more difficult for foreign analysts to understand what was happening, because there are now several versions of events available. In the old days it was simpler -- only one version.

Kryuchkov thanked Gates for that idea, and said he would use it next time he had to justify a request for personnel or budget increases -- the more information was available, the harder it was to understand. Gates said this was especially the case now in the Soviet Union, with so many important events taking place all over the country.

Kryuchkov said "of course, perestroyka is encountering problems," and that had been reflected in the debates at the plenum. We should have planned for the changes to take place over a longer period of time, he said, because the hardest thing of all to change is the way people think. It takes time, especially to bring about substantial changes. We had hoped to bring about large-scale change quickly, but it was more than our people could take. Change should be applied gradually, like oxygen. Too much too quickly could make one dizzy. Nevertheless, he continued, there is no way back now. We must push ahead. We will make adjustments as we go, making sure we remain in touch with the people, checking their views and attitudes. We had to do this so the leadership would not go one way, the people the other.

Kryuchkov argued that Article Six of the constitution, which gave the party the leading role in the society, need not be "eternal." It had been inserted in the new constitution in 1977, but no longer corresponded to reality. It should be either changed or omitted entirely. Doing so would present no big problem. Its presence had spoiled the party. Party decisions were too easily turned into law. The party was not then or now equivalent to society as a whole, and neither was the Central Committee. Since the article no longer corresponded to reality, if it remained in force it could cause philosophical and practical problems.

As for establishment of a multi-party system, he said, many informal organizations already exist which function like parties. Nevertheless, a multi-party structure should be introduced gradually. Standards and regulations should be established

concerning registration, minimum requirements for membership, etc. A monarchist "party" now exists which wants to restore a monarchy. That obviously is not in keeping with the times, and such a party is out of place. Nevertheless, all such groups have a right to exist. There are some quite extreme groupings -- anarchists, for example. Formal requirements should be put into place governing their activity. They are not, he continued, like companies. The U.S. had many companies -- 15 to 18 million, he understood, some of which lasted only a few days, some for decades. But parties should not be such temporary phenomena....

Kryuchkov said that the plenum had also decided to move the party congress forward, from fall to summer. This was done because of the heightened political activity of the people. Moreover, the role of the party is changing, so party statutes and basic documents should change as well.

Kryuchkov said that of course there had been disagreement at the plenum on perestroyka, but only one delegate had spoken out against perestroyka itself. But others criticized or doubted one aspect or the other -- certain policies, or the pace of change. My own attitude, he continued, was made clear in my presentation, which was printed in the press. "I argued that we should take stock, see exactly where we were in the process of change so we could be very careful in the further steps we took." I said also that while we were creating a state in which law ruled, we had to develop means within the law to deal with violence. We had laws, but they were not sufficiently specific. We should especially strengthen our criminal law.

For many years we should have been paying more attention to interethnic disputes. But we had this idea that everything was developing without a problem. We were wrong. In regard to Eastern Europe, we should let things take their own course, give them a chance to develop normally. But of course we could not "forget the results and costs of the war." Kryuchkov noted that that had been a brief outline of his thinking and his presentation. He assumed that U.S. analysts would take a closer look at the latter and the results of the plenum.

Kryuchkov added that Gates should know that this plenum would continue to work for a few more months in its present composition, but with the report/election campaigns and the congress coming up, a new central committee would soon be in place. What would it be like? That's a valid question for both Soviet and U.S. analysts. There are many variables. If U.S.-Soviet relations improved, and we concluded agreements, that would present good prospects for the future, and would help those who support new thinking. If, on the other hand, the U.S. "tried to corner us, to exploit our current difficulties, or put us in

awkward situations," that would influence the attitude not only of the party but also the people.

The economic situation is also important, of course, and would influence the make-up of the committee. The Soviet government, and its intelligence services, are studying the experience of the West in extricating itself from difficult economic situations. And despite our problems, the Soviet leadership believes that we could find ways to resolve our economic problems fairly quickly. Not all problems, of course, but enough to begin the economy moving. "We will soon engage these problems in a big way."

In response to the notion of the U.S. exploiting Soviet problems, Gates replied that Kryuchkov should know that the President had spoken the truth when he had said that he supported perestroika. The President's attitude was clear. He has handled problems and challenges in the relationship with caution and prudence, and had not attempted to take advantage of Soviet domestic troubles. Gates said he could assure Kryuchkov that no element of the U.S. government is engaged in activities in the USSR harmful to perestroika or to cause difficulty for reform. He continued that the possibility of real instability in the Soviet Union is frightening, and the U.S. would do nothing to encourage it. The President supports perestroika because it is in our mutual interest, and because it serves peace in the world in general.

Gates said he would like to outline briefly for Kryuchkov three general problems he sees the USSR facing now. The first concerns interethnic relations. Gorbachev had inherited the problems of an Empire in this regard. Many of the regions that now made up the USSR had not joined the Empire voluntarily, but by force of arms. Many now want independence, and want it quickly. The time needed to work out a form of voluntary federation thus might not be available.

Second, political developments are outrunning economic developments in the society. And the problem is that many of these economic problems need to be tackled at the same time. Moreover, many of these changes are such that they require painful adjustments by the people. Thus, this process of change is indeed difficult.

Third, reform is weakening the old institutions before new institutions can be put in place. The society's ability to implement necessary change is thereby also weakened.

Gates said one thing is difficult to understand, however. What has caused the recent, sharp increase in crime, especially

large-scale, organized crime? There have even been reports of hijacking of trains.

Kryuchkov said that Gates' observations deserve serious study. But they represent a view from the outside. And for all of us, our analysis is supplemented by our emotional reactions. History has it uses. Gates is correct when he says that not all of the regions had incorporated themselves voluntarily. There are perhaps no parallels easily drawn between the U.S. and the USSR, but the Civil War in the U.S. indicated that not all of the fifty states had agreed to their incorporation either. History was history, but it could not by itself be allowed to be a determining factor. History could not be ignored, but "if it is put up front, it just complicates our life." New factors always arose.

In the case of the USSR, over the past seventy years, growing interdependence among the republics had increasingly tied them together, especially economically. The Baltic states, for example, got more from the rest of the Soviet Union than they gave. Estonia got cotton, oil, energy, grain, forage, non-ferrous metals, and so on. Of course it also contributed to the rest of the USSR, but not as much. The most dependent of all of the republics was Lithuania, which was paradoxical, for it is exactly there that the drive for independence is most developed. But the interdependence of all of the republics is now very strong. It had developed because of an intentional policy, the result of a conscious effort by the center to develop the outer periphery of the country. No republic can leave tomorrow without feeling this interconnection. Interdependence painfully affects the Union. Armenia now wants to shut down a plant that is polluting the area. But the plant produces something on which seven hundred fifty other plants depend.

Nevertheless, there is much in what Gates had to say. Much effort has to be devoted toward developing a new federation as soon as possible. Some areas want political independence, with continuing economic interdependence. Even that possibility cannot be rejected out of hand.

Concerning shortages in goods, Kryuchkov said, we in fact have increased the number of goods considerably in the past five years. The problem is the enormous increase of money in people's hands, plus our "atrocious" pricing system. Wage and pension increases have contributed to the problem of the ruble overhang, but the main culprit is conversion of very large amounts of what in the past had been non-liquid funds -- columns of figures in accounting books -- to cash. In the old days if an enterprise had 50 million rubles, 40 million would have been non-liquid. Under the new system much more of it was available in cash. So

now we have hundreds of billions of rubles of "bad money" -- money not backed up by goods -- circulating in the system.

The FRG after the war had had a similar problem, and had carried out a money reform which left each person only forty marks in his pocket. If we could do the same, we could return to the situation as it was in 1987, when we were not managing badly. But such a reform would not be popular. Another source of excess money is of course the cooperatives. They take one billion worth of products and sell it for ten billion. For this reason everyone hates the coops. Kryuchkov said he personally supports the concept of coops, but they must be closely regulated. But some say that we should let them operate like in the West, without regulation. He added with a smile that while we were breaking our heads here over how to make firms operate with less regulation, in the West the governments are trying to increase public regulation of business.

Gates said that in fact most states in the West are now concerned with reducing state involvement in their economies. France, the UK, Mexico, and others are selling state enterprises.

Our price system, Kryuchkov continued, is terrible. A foreigner had told him that the Soviet Union would never get rich with such a pricing system. Bread cost nothing. The poorest person could buy a kilo of bread and throw it away.

Kryuchkov said that these economic anomalies coupled with democratization, taken together, have brought about a sharp increase in crime. Nevertheless, while the Soviet Union wished to overtake the U.S. in some indicators, it did not want to do so in all -- especially in crime. And so far it was still lagging behind. The KGB is now engaged against large-scale crime. Gates had mentioned a train hijacking in the Soviet Union? Kryuchkov said he had not heard of such an incident. If it had happened, it would have been publicized, because everything was these days.

Kryuchkov related that a foreigner had recently been apprehended with three million dollars in contraband. Had he been able to sell it here, he would have realized twelve to fourteen million rubles. If he had then converted that back into goods, and smuggled it into the U.S., he could have ended up with twelve to fourteen million dollars. The U.S. and Soviet Union should work together against such traffic in contraband. Perhaps we should consider an agreement regarding national treasures -- if when stolen they ended up here we would return them, and you would do the same for us. It would be worth considering.

Kryuchkov said that frenetically active rumor mills are characteristic of our situation here now. We are hearing about

alleged pogroms. An official report is under preparation in the KGB denying that such pogroms would take place. In the past such rumors had been short-lived. Now, because of instability in the society, they fall on fertile soil and prosper. In the U.S. rumors are confined to stock markets. Now, the entire Soviet Union is a stock market.

Gates asked how Kryuchkov personally viewed prospects for reestablishing order, putting the economy on the right track, and resolving the interethnic problems. Is he a pessimist or an optimist?

Kryuchkov replied that the German philosopher Berghoff had discussed the problem of pessimism and optimism in a treatise. He had concluded that a pessimist lost nothing, for if he was wrong, he simply shrugged his shoulders and no one paid attention to him. An optimist, however, staked everything on his bet, and stood to lose it all. Nevertheless, Kryuchkov continued, I am an optimist. We have no choice but to change the system, because other kinds of change in the USSR and around its borders make change in the system inevitable. It was unfortunate that some of this change had come about only after loss of life. But we should strengthen our laws to avoid such loss. And we had to continue with politization of the people to create the need for enterprise among the people, and to transfer power to individual enterprises and local councils in order to develop responsibility at those levels. With increasing frequency this was now happening. In a number of areas around the country local citizenry or local party members have risen up against inefficient or corrupt party organs and booted the rascals out. That is encouraging, and a sign that what we want to happen is happening.

In the past, all decisions and political power flowed from the top down. Now it is beginning to flow in the other direction. Most elections are now multi-candidate. A process of democratic education is underway. It would take time to reach the level of the U.S. But once it reached a certain level, the situation here would stabilize. When we met last May, I asked you how officials in the U.S. could respond to insults in the press. You told me they could do nothing, not even sue for libel. Here it should be different. Take those two crooks, Gdlyan and Ivanov, two prosecuting attorneys who used demagoguery to assure their political success. In the old days it would have been different. There would have been no publication of their remarks, no slander, and they would simply have been fired. Now we could not do that "because Mr. Gates tells us not to."

Gates asked Kryuchkov what would happen if an election were held in the Soviet Union in which the communists lost -- as had happened in Eastern Europe.

Kryuchkov (misunderstanding the question) responded that as for Eastern Europe, "the changes are not agitating the public here." The people there would decide their own fate. But we should not be passive. We are not making use of our influence and capabilities. It is important that there be no revenge, no persecution of communists. If they are jailed or otherwise harassed (as the Romanians had almost done), that would be the best way to compromise the new democratic movements from the outset. If that happened, the time could come "when all of the political movement in Eastern Europe would go backward."

As far as we are concerned, he continued, the situation in Eastern Europe is not destabilizing. Our people are concerned, but willing to let events their take their normal course. But they should not be determined by people in the streets.

Kryuchkov went on, it is the case here, and probably elsewhere as well, that very active, sometime extreme minorities establish the course for a society, because the majority is passive. These extremist groups could cause authorities to react against them. Sometimes it is forgotten that the years of socialism had done much good for Eastern Europe -- they had done away with unemployment, provided free medical care, jobs, etc. Moreover, people had had no fear of the future. Now change is unsettling these people, making them uncertain. The best course is simply to be patient with them, let events proceed. That had proven the best course on Afghanistan. Events eventually forced a solution. But we would maintain a wide range of economic ties with Eastern Europe. What did Mr. Gates think, should we sell them our goods cheaply or go to world prices? The USSR sold them cotton, oil, timber, non-ferrous metals, and so on cheaply. If we charged more it would cost them billions of dollars. Perhaps the U.S. could help them in that case.

Gates replied that we are already helping. Kryuchkov said "not very much." Gates responded that we are a rich society, but our government resources are limited.

Gates asked again, what would happen if many communists in the USSR were to lose in free elections. Kryuchkov responded that most candidates for elections in the USSR were now members of the party. Actually, fewer non-party members were now being elected than in the past -- only about 10% now compared to 27% in the past. But that of course was no accident. "Not the worst people go into the party," pointing to himself and the KGB interpreter. But the proportions different among the republics.

In the Baltic states people often had party cards, but could not be considered communists. The same in Azerbaydzhan. But even the non-party people were for the present order. Few were against perestroyka, though they might have a different understanding of it.

But what would happen to communists in a full-scale, multi-party election? Good question. Communists had no experience in political campaigns. They are not skilled at persuading people. But they are learning fast -- even the KGB. We have found that with our new open attitude toward the public we gained from the 90% of the material we made public, while losing only 10% of the time.

Perhaps, jibed Kryuchkov, we should divide the party into two parties with identical platforms. Then we would be like the U.S., where nobody could tell the difference between the two parties. Gates asked whether one of the parties could be capitalist.

Kryuchkov said that there was already much socialism in Western parties. He had always thought that private property in the West was sacred, untouchable. But he was learning that relatively little property was indeed held "privately" -- much is held collectively -- stock in companies, for example. Moreover, there is state provided insurance, law-enforcement (sic), and so on. You in the West would reach socialism faster than we in the Soviet Union.

Gates asked if the Soviet Union would permit private property -- the large scale ownership of land and equity. Would peasants be able to pass land on to their children?

Kryuchkov said that cooperative land-holding is now possible, and groups of 15-20 people in essence control the land they farmed. But we wish to protect our people from exploitation in the Marxist sense, when people could enrich themselves purely from the labor of others. Your political systems in the West are more sophisticated. In most countries there are two parties, liberal and conservative. After several years of moving toward the left under liberal democrats, the conservatives were voted in to provide the people a rest. A great system. Thatcher had now been in power for what -- thirteen years? It was time for a change.

Kryuchkov said that the question of selling land is not yet decided. There are two points of view -- one for, one opposed. Peasants could not be given the land free of charge. But if they were asked to pay for it they would reply that they should not pay for something they -- "the people" -- already owned. The new

laws on land and on property would include provision for leases unlimited in time. But people would be reluctant to leave the kolkhozes, especially the more economically stable. In Eastern Europe they would not dissolve the kolkhozes, especially in Czechoslovakia and the GDR, where there was an ideal proportion of collective and individually-owned land.

Gates said he would like to pursue that issue further, but knew that Kryuchkov was busy, and would like to move on to two other subjects. First, the German question. Events are moving faster than anticipated. We might see some GDR initiative after the 18 March elections. Under these circumstances, we support the Kohl-Genscher idea of a united Germany belonging to NATO but with no expansion of military presence to the GDR. This would be in the context of continuing force reductions in Europe. What did Kryuchkov think of the Kohl/Genscher proposal under which a united Germany would be associated with NATO, but in which NATO troops would move no further east than they now were? It seems to us to be a sound proposal. There are in any case only three options for a unified Germany: either it would be a member of NATO, neutral, or a member of the Warsaw Pact.

Gates said that alignment with the Warsaw Pact clearly was not possible in terms of present realities. A neutral Germany would suffer from the same insecurities and uncertainties regarding its security that Germany had experienced before World War I. In an effort to assure its security it would be tempted to develop nuclear weapons and turn in different directions, seeking reassurance. A large, economically powerful Germany just could not be neutral. The third option, membership in NATO, would provide for a secure Germany integrated in Western Europe which the Soviet Union would have no reason to fear. It would anchor Germany in a way that would leave it secure, able to exercise a positive economic influence (including in the East), and without being a security problem for the USSR.

Kryuchkov replied that as Gates should know, the events in the GDR concern the Soviet people. The other countries are different. But the USSR had paid a terrible price in World War II -- 20 million killed. "We can't exclude that a reborn, united Germany might become a threat to Europe. We would hate to see the US and USSR have to become allies again against a resurgent Germany."

"Germany's technical possibilities and intellectual potential are well known. It is difficult to predict what directions its military and technology might take." That is no idle question, for "influential forces in the FRG do not wish to recognize the results of the War or to accept the post-World War II borders." The Poles are also concerned. We never said that

Germany could never reunite -- but the basis on which reunification took place was always important to us. Trust between the US and USSR is growing, true, but that trust still had to be "materialized." The Soviet Union, under present circumstances, could have "no enthusiasm" about a united Germany in NATO. We should look for other options. You, Great Britain, and France would develop a common view, and we in the Warsaw Pact would do so, and we would discuss them. We need not hurry so much. Kohl and Genscher had interesting ideas -- but even those points in their proposals with which we agree would have to have guarantees. We learned from the Americans in arms control negotiations the importance of verification, and we would have to be sure.

The U.S. had to participate in World War II even though it had been protected by oceans. Now the oceans were meaningless. An interdependent world would not allow any great power to escape involvement in a new war. "People here say that we have had peace for forty-five years because Germany is divided." And of course Japan did not become a military superpower. But the question of German unity is a very serious one, and requires far-reaching, frank exchanges of opinions between the US and USSR.

Gates said he had two points to make on professional matters.

First, Kryuchkov would have noted that Vladimir Apinidze had returned to the USSR, without any publicity. Kryuchkov nodded assent.

Second, could Kryuchkov frankly state what had happened to Major General Dimitry Polyakov ("Donald")? Kryuchkov replied that he had been shot in 1988. He added that Polyakov had "told all." "We know everything, and you know everything."

Gates said that Kryuchkov occupied an especially responsible position at this time of momentous happenings. It was very important that our foreign ministers and heads of state met to discuss matters of mutual concern. It was also important that he and Kryuchkov be able to discuss matters in this channel. Gates said that if ever Kryuchkov believed that a special meeting was necessary, that could be arranged through existing channels. We preferred not to use the intelligence channel for political issues. And, of course, we should not meet without the knowledge of our foreign ministers. Kryuchkov nodded assent.

Kryuchkov thanked Gates for his observations, which were useful, whether or not one necessarily agreed with them all. Though he was an optimist, he continued, that does not mean that he is not aware of the many problems the country faced. There is

a struggle underway between those who want change and those who do not. Each side might have to make concessions. "A political climate is being formed in which on occasion certain actions might have to be taken. The external reaction would be important. It would be one thing to understand our actions, perhaps even to support us. It would be another to attempt to take advantage of our problems." We heard nice words from you, but if there were no corresponding action -- for example, development of good trade relations -- your intentions would be interpreted differently. We are not asking for material assistance, "for anything free." Our resources are such that we do not need that. Our increasing contacts with the U.S. had helped us increasingly to understand the U.S. and its foreign policy, though we could not approve of Panama, where you invaded a small country in order to try one possible criminal. Noriega may be a very evil fellow, but that was too much. On the other hand, we understand and support your struggle against narcotics trafficking.

Kryuchkov then handed Gates a list of names prepared by the KGB which he said were persons engaged in drug running operations in Europe and the U.S. They happened to be members of the Afghan opposition. He added with a smile that it was a rare opportunity in which he could kill two birds with one stone -- promote the struggle against drugs and show the U.S. the true face of its alleged friends. He asked that Gates not reveal the source of this information. How Gates used it was of course up to him. If the U.S. did nothing more than end that supply channel that would be enough.

Gates said he would quickly respond to four points Kryuchkov had made. First, he noted that twice in the discussion Kryuchkov had made reference to the possibility that the U.S. would be tempted to take advantage of Soviet domestic troubles for its own ends. He said he wished to repeat with all seriousness that the President did not want to cause problems for Gorbachev or perestroyka. He supports perestroyka as something very much in our mutual interest. Gates added with a smile that sometimes he thought Gorbachev regarded him as a "bad influence" in Washington. Gates continued that that was not the case. He supported the President's view on perestroyka fully.

Second, as the President had made clear in Malta, we are prepared to move ahead in some areas of trade. He recalled the Presidents' comments on MFN, the Stevenson amendment and a new Trade Agreement.

Third, he also wanted to emphasize that the U.S. was aware of Soviet security concerns about a reunified Germany, and understood that they must be treated seriously.

Fourth, on Panama, the U.S. had Treaty arrangements authorizing our presence and that, in violation of those rights, Americans had been harassed and even killed. We had intervened to protect our citizens, our Treaty rights, and to remove an indicted drug dealer who had thwarted a free election. The Panamanians received us as liberators. Our troops would be out by the end of February.

Kryuchkov said he would pass all of these messages to Gorbachev without fail.

Kryuchkov noted that it was a sign of the times that 24 years ago his predecessor, Semichastnyy, had harshly criticized Pasternak. Tonight, he, Kryuchkov, was attending a gala at the Bolshoi in celebration of the centenary of Pasternak's birth.

In parting Kryuchkov asked Gates to pass his greetings to "Mr. Powell," and, if possible, to the President.

Attachment:
As Stated



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