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USSR: Modernizing a Reluctant Labor Force [Redacted]

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An Intelligence Assessment

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SOV 87-10071
November 1987

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USSR: Modernizing a Reluctant Labor Force

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An Intelligence Assessment

This paper was prepared by Office
of Soviet Analysis. Comments and queries are
welcome and may be addressed to the Chief,
Economic Performance Division, SOVA,

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*SOV 87-10071
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USSR: Modernizing a Reluctant Labor Force [Redacted]

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Scope Note

Gorbachev's ability to modernize the Soviet economy will depend as much on whether he can convince or coerce a reluctant labor force to adopt new attitudes and work habits as it will on his ability to generate more and better capital goods for workers to use. Because the present Soviet labor force is ill prepared to cope with a major upheaval in its work ethic—"we pretend to work and the government pretends to pay us"—Gorbachev's policies will be viewed with skepticism among some managers and with anxiety among the workers. Overcoming this skepticism and anxiety while sticking to his game plan poses a major challenge to the Soviet leader. This assessment addresses his ability to meet that challenge.

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[Redacted] The current paper focuses on the industrial labor force—the problems that inhibit its motivation and efficient utilization, Gorbachev's efforts to deal with these problems, the progress of his policies so far, and the implications for labor productivity and modernization. Research is under way in SOVA on the implications of Gorbachev's reform program for the social contract with the working class. The reaction of the managerial elite to Gorbachev's policies will be assessed in another DI study.

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USSR: Modernizing a Reluctant Labor Force

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Key Judgments

Information available as of 20 October 1987 was used in this report.

The Soviet work force is ill prepared to take on the challenge of Gorbachev's ambitious industrial modernization program. A number of chronic labor problems threaten to bog down progress, including poor utilization of workers, a long-term erosion of discipline fostered by a high degree of job security and an egalitarian wage structure, and declining standards in the technical professions. In the 1960s and 1970s rapid labor force growth mitigated these problems. In the 1980s, however, this growth has been declining sharply. The Soviets will have to make up for the demographic shortfall by increasing productivity. Moscow believes that the assimilation of new technology will eventually generate much of this increase. But, because it will take time to manufacture and install new equipment, productivity gains from harder work and better organization and use of labor are needed now to get the modernization effort on track.

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Gorbachev has set about to change attitudes toward work, improve the allocation and utilization of scarce labor resources, and raise standards in higher education and technical training. His success is far from certain. His temperance and discipline campaigns gave an initial boost to productivity by cutting down on lost work time, but booze and backsliding are creeping back into the workplace. A report recently published in *Pravda* charged that some localities are relaxing alcohol restrictions and covering up incidents of alcohol abuse in the workplace. According to the report, in the first six months of this year in the Karelian region alone more than 3,500 persons were detained for showing up drunk at work.

Gorbachev has also attacked the hitherto sacrosanct issues of egalitarian wages and job security. A new pay system introduced on 1 January 1987 increased wage differentiation, granting top administrative and technical personnel wages sharply higher than those of blue-collar workers. The new system also encourages enterprises to cut excess workers and managers. The state is not funding the pay increases stipulated by the reform, forcing enterprises to lay off workers to finance the higher pay scales. Thousands of layoffs have already occurred, and more are scheduled. Many of those released will be older workers who will simply go on pension. Moscow expects other laid-off workers to take jobs on night shifts, in the service sector, or in the labor-deficit regions of the Soviet Far East and Siberia.

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Some enterprises have reportedly raised labor productivity through cutting staff, combining jobs, and improving organization, but others have run into problems. Most enterprises need better equipment and time for retraining to keep up production with fewer workers. Needed equipment, however, is scarce. Problems with delivery schedules, product mix, and quality in the machine-building sector could slow gains from staff cutbacks. And little slack time will be available unless the leadership backs away from setting high production targets.

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Many of Gorbachev's policies have proved unpopular with Soviet workers, who are accustomed to a low level of effort, guaranteed jobs, and easy bonuses. As Gorbachev attempts to alter this implicit contract, he will have to move carefully to avoid disaffecting blue-collar workers, who have much to lose and little to gain over the short run. There have already been reports of labor disturbances following the loss of bonuses because of poor performance, inequalities arising from the wage reform, plans for staff reductions, requirements to work on late shifts, and higher work quotas.

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It will be difficult for Gorbachev to convince the Soviet worker—made cynical by years of campaigns, promises, and exhortation—that a more prosperous future will indeed materialize if he increases his effort. Members of the intelligentsia may be excited by *glasnost*, or “openness,” and the reform discussion, but the average worker will believe in change when he sees it on the store shelves and on the shop floor.

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Improvements in the consumer sector will have to be made if any new incentive system is to be effective. The benefits of widening wage differentials will be greatly diminished if higher wages cannot buy a productive worker a substantially better way of life than that of less productive coworkers. As things currently stand, both are queuing up for the same shoddy goods and services. Gorbachev has initiated a number of measures to improve consumer goods and services on the cheap, including a new law on individual labor activity that is intended to make it easier for private citizens to fill some of the gaps left by the state sector. However, unless more resources are diverted to the consumer sector, and unless consumers are given more influence over producers, major improvements will be difficult to achieve.

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USSR: Modernizing a Reluctant Labor Force

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Labor Practices Constraining Modernization

Gorbachev is trying to implement an ambitious program of industrial modernization without bringing more workers into industry. To do this, he will have to find ways to reverse the indifference and laxity that have been ingrained in the work force for nearly seven decades—a formidable challenge, even for Gorbachev. Both workers and managers tend to resist change. Incentives to innovate or advance technical progress are weak, and labor is inefficiently utilized. In the 1960s and 1970s rapid labor force growth mitigated the economic impact of these problems. In the 1980s, however, this growth has been declining sharply (figure 1 and inset). According to Nikolay Ryzhkov, Chairman of the USSR Council of Ministers:

For the first time virtually the entire increase in the national income, industrial output and other production sectors will be obtained, it is planned, through increasing labor productivity. . . . Over [the 12th Five-Year Plan] the increase in labor resources will diminish and amount to only 3.2 million persons. Without the planned increase in labor productivity, the national economy would need more than 22 million additional workers. We simply do not have such labor resources at our disposal.

[Redacted]

Gorbachev apparently believes that technological progress and accompanying increases in labor productivity will allow industry to meet its production goals without an increase in workers. If this is to occur, however, there must be a fundamental change in the way industry utilizes workers, as well as changes in workers' attitudes. To modernize Soviet industry, Gorbachev needs a flexible, modern labor force motivated to work hard and keep up with changing technology. He also needs managers who use incentives effectively to boost productivity and who are

Figure 1
USSR: Increments to Working-Age Population and Civilian Labor Force



Source: Ward Kingkade, "Estimates and Projections of the Labor Force and Civilian Employment in the USSR: 1950 to 2000" (Center for International Research, Bureau of the Census), unpublished data, September 1986.

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forward-leaning and resourceful in introducing labor-saving techniques and technologies. This is a far cry from the labor force that Gorbachev inherited. The Soviet approach to the workplace had virtually institutionalized practices that promote job security at the expense of efficiency and innovation. [Redacted]

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Labor Hoarding

Unlike firms in a competitive market environment, Soviet enterprises have had little incentive to economize on labor. Managers have not been concerned by the cost of labor, because the wage fund is allotted by the state. Indeed, industrial ministries and their subordinate enterprises have attempted to bid for as many workers as possible as a means of increasing current output, regardless of cost. Enterprises have been judged on the basis of how much they produced, not how efficiently they utilized human resources. As a result, Soviet enterprises have become substantially overmanned in comparison with Western factories. Managers have also hoarded labor as a hedge against steadily rising plan targets, demands to supply labor for the harvest or special civic projects, and time lost because of the erratic supply of materials and equipment. [redacted]

Labor hoarding at older enterprises has led to a shortage of workers for new production facilities. According to one Soviet economist writing in 1986, labor shortages were responsible for one-third of the delays in commissioning new enterprises. A 1982 Soviet study of several branches of industry found that enterprises put into operation between 1976 and 1981 were staffed at only 84 to 87 percent of the planned level, while enterprises six to eight years older had a 10- to 15-percent surplus of labor. Even in enterprises with a labor surplus, the newest equipment often has been undermanned because labor has been tied up operating and repairing obsolete machinery. [redacted]

Sluggish Capital-Labor Substitution

Western firms try to use new equipment to reduce their labor requirements, but in the Soviet Union the opposite has generally been true. Ministries have tended to use investment to create more jobs and boost production, rather than to replace workers. Indeed, there has been an incentive to create positions whether there have been workers to fill them or not. Some Soviet writers have claimed that managers' pay is linked to the number of work positions—even empty ones—at their enterprises. Moreover, unfilled slots have been used to justify further demands for labor. Gorbachev complained in 1986 that industry had more than 700,000 vacant work positions. [redacted]

The Demographic Constraint

Soviet demographic trends have led to a sharp deceleration in growth of both the working-age population and the civilian labor force during the 1980s. ^a The working-age population will grow at an average annual rate of just 0.4 percent in the 1980s, compared to an average annual rate of 1.6 in the 1970s. The labor force will grow somewhat faster, increasing at an average annual rate of 0.7 in the 1980s, compared to 1.6 percent in the 1970s. This is the result of a greater concentration of people in the middle age groups, which have the highest participation rates, as well as a rise in the number of pensioners in the labor force. In the mid-1990s the number of new entrants to the labor force will pick up, easing strains on labor supply. [redacted]

The problem of slow growth is compounded by a severe regional imbalance in labor supply. The greatest demand for workers in the Soviet Union is in the highly industrialized western USSR and in resource-rich Siberia. However, the able-bodied population in the Russian Republic and the European republics has actually been declining since 1984 and will continue to decline until 1996. In the last 20 years Soviet population growth has been concentrated in the high-fertility southern-tier republics. During the eighties most of the increment to the able-bodied population in the Soviet Union will come from Central Asia, where workers generally have less education, fewer skills, and less plant and equipment to work with than elsewhere in the country. Central Asians are generally unwilling to migrate to the urban industrial centers of the north. [redacted]

^a The working-age population is composed of men 16 to 59 and women 16 to 54. The labor force is the economically active population, including working pensioners and those engaged in private subsidiary farming. [redacted]

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Table 1
USSR: Labor Savings From the
Introduction of New Technology in
Industry, 1971-85^a

	Annual Reduction in Workers (thousands)	Percent of Industrial Employment
1971-75	529	1.6
1976-80	558	1.6
1981-85	502	1.3
1980	555	1.5
1981	510	1.4
1982	450	1.2
1983	479	1.3
1984	525	1.4
1985	546	1.4

^a Source: *Narodnoye khozyaystvo SSSR*, 1982, 1983, 1984, 1985.

[Redacted]

In their drive to create new jobs, ministries neglected the mechanization of existing positions, particularly those in auxiliary processes such as loading, unloading, packing, and maintenance. As a result, substitution of capital for labor has been slow (table 1), and industry requires large numbers of manual workers. Currently over one-third of all industrial workers are manual laborers (table 2).

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Job Security and Low Motivation

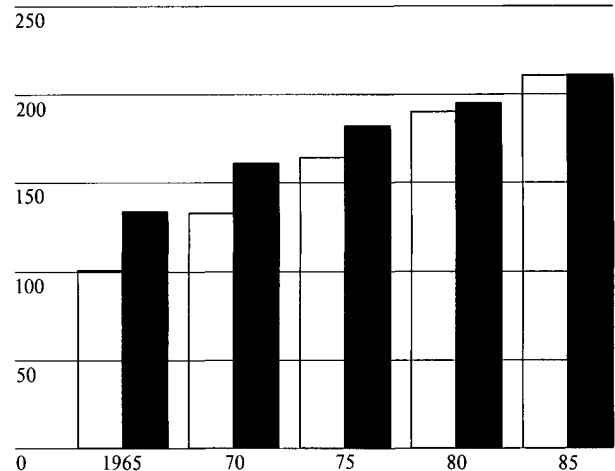
When Gorbachev came to power, excess demand for labor, a tightening labor market, and a commitment to full employment had given Soviet workers a high degree of job security. Workers generally were fired only in cases of persistent drunkenness or other gross infractions of discipline—and most of these workers had little trouble finding new jobs. In 1981 one enterprise reported that, for every two people it fired for discipline problems, one of the people hired as a replacement had been fired for similar reasons from another local enterprise. The guaranteed job fostered a long-term erosion of discipline and a widespread attitude of indifference. At a public lecture early this year one Soviet worker observed, “We have no unemployed workers outside our factories—they are all inside.”

[Redacted]

Figure 2
USSR: Wage-Leveling in Machine
Building and Metalworking

Average pay for:
 □ Workers ■ Administrative and
 technical personnel

Rubles per month^a



^a Includes wages and bonuses.
 Source: Vladimir Shcherbakov, *Sotsialisticheskiy trud*, Number 1, January 1987.

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Wage-Leveling

Wage-leveling has weakened the incentive for professional managerial and technical personnel to excel. As a result of the state's egalitarian wage policy, as well as a proliferation of bonus payments to workers awarded primarily for meeting quantity targets, blue-collar wages have grown at a faster rate than earnings of professionals. In 1986 in the USSR as a whole, a white-collar worker earned on average only about 10 percent more than a blue-collar worker. In the critical machine-building sector, earnings were roughly equal (figure 2). In the construction sector, white-collar employees actually earned less than blue-collar workers. Moreover, through the years differentials between the lowest and highest skill grades have narrowed for both blue- and white-collar workers. The Soviet wage

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Table 2
USSR: Manual Labor in Industry

	Total Wage Earners (thousands)	Wage Earners Who Work Manually (excluding repair work)		Wage Earners Who Manually Repair or Adjust Machines	
		Percent of Total	Thousands	Percent of Total	Thousands
1959	17,598	54.6	9,608	9.5	1,672
1965	23,495	48.5	11,395	11.2	2,631
1975	28,487	41.6	11,850	12.7	3,618
1979	30,226	40.2	12,151	13.2	3,990
1982	30,950	37.4	11,575	13.8	4,271
1985	31,302	34.9	10,924	14.1	4,414

Source: *Narodnoye khozyaystvo SSSR*, various years.

system thus has offered workers little incentive to improve their skills or retrain to keep up with changing technology. [redacted]

Imbalances in Education and Training

The USSR has had acute problems with the training, utilization, and motivation of engineers² and other specialists, a group critical to the success of the industrial modernization program. [redacted]

Soviet higher educational institutions have produced an overabundance of poorly trained engineers (table 3). While the top technical universities turn out an engineering elite, this is a small fraction of the total. Approximately one-half of engineers graduate from evening and correspondence courses, where the quality of instruction is notoriously low. Many more have attended substandard institutions in rural areas and small towns. Soviet schools, like industry, have suffered from a focus on quantity rather than quality. Weak or undisciplined students have been passed through the system so that schools could meet targets for admissions, promotions, and graduations. As a result of these trends, the prestige and attractiveness of engineering have declined and professional standards have deteriorated. [redacted]

² In the Soviet Union the term "engineer" is more broadly defined than it is in the United States. Many Soviet "engineers" would be called technicians or other kinds of specialists in the United States. [redacted]

Industry has not been able to effectively utilize the large number of engineers and specialists available in the labor force. As their numbers increased, engineers have had less and less substantive work to do. They tend to spend more time on routine tasks than on research and design. Many engineers take jobs that in no way utilize the skills they have acquired. Many end up in blue-collar jobs. Thus, resources invested in educating these workers have been wasted and their entry into the labor force unnecessarily delayed. [redacted]

Although there is an overall abundance of engineers, there are deficits in particular specialties, as well as regional imbalances in training, because educational planning has been unable to keep pace with the changing needs of the economy. This reflects both the difficulty of projecting demand five years in advance and the ministries' habit of overstating future manpower requirements. One Soviet official complained that there are shortages of qualified specialists in computers, electronic equipment, automation and mechanization of machine building, and a number of other areas, while "the number of graduates in specialties for which there is no demand is growing year in, year out." Moreover, because many engineers are trained in narrow specialties, it is more difficult for them to switch fields or adjust to changing requirements after they have entered the work force. [redacted]

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Table 3
USSR: Expansion of the Engineering Profession^a

	1950	1960	1970	1980
Total Engineers	400,200	1,135,000	2,486,500	4,914,200
Number per 1,000 workers and managers	9.9	18.3	27.5	43.7
Engineers as a percentage of all specialists with higher education	27.7	32.0	36.2	40.7
Ratio of engineers to technicians	1:2.1	1:1.7	1:1.8	1:1.6
Engineers graduating from higher educational institutions	37,400	120,400	257,400	329,300

Source: S. A. Kugel', *Sotsiologicheskoye issledovaniya*, No. 1, 1983.

^a In the Soviet Union the term "engineer" is more broadly defined than it is in the United States, encompassing a wide range of specialties.

Gorbachev's Labor Policies

Gorbachev has made it clear that he will not accept claims of labor shortages as an excuse for continued slow growth in production. He maintains that enterprises can operate with fewer personnel and still carry out modernization while increasing output and quality. He has warned that workers will no longer be able to count on lax discipline, easy bonuses, and secure jobs. He has ambitious long-term targets to raise

productivity and accelerate shifts in employment (inset). The main elements of Gorbachev's strategy to overhaul the labor force include:

- Improving incentives and tightening discipline to encourage workers to increase the quality and intensity of their work.
- Improving the allocation and utilization of labor resources through vigorous implementation of labor-saving measures.
- Raising standards in higher education to improve the quality of managerial and technical personnel, thereby narrowing access to these fields.
- Allowing workers to elect enterprise managers (subject to the approval of higher organs), a move intended to foster greater responsibility and initiative.

Moscow has adopted numerous measures to put this program into place. With each new measure introduced, demands on the labor force have escalated. Workers and managers are now being asked to increase production, raise quality, retool, introduce organizational changes, add extra shifts, and do all of the above with the same or fewer workers.

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Temperance and Discipline Campaigns

The first step in Gorbachev's drive to raise productivity was an all-out attack on widespread alcohol abuse in the labor force. In May 1985, shortly after coming to power, Gorbachev unveiled draconian measures to curtail alcohol consumption. Alcohol production was cut sharply, prices were raised by an average of 40 percent, penalties for public drunkenness and alcohol-related crime were increased, and liquor store hours were reduced. To convince the populace that temperance was here to stay, some distilleries were closed or converted to other uses.³

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Gorbachev has also initiated measures to raise performance standards and personal accountability for both workers and managers. He has used a policy of *glasnost*, or "openness," to rouse the population from

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Gorbachev's Labor Targets

General Secretary Gorbachev's ambitious goals for the labor force in the 12th Five-Year Plan period (1986-90) and beyond include:

- A 20- to 23-percent increase in labor productivity (for the total economy) in the 12th Five-Year Plan (in comparison, the CIA estimates that labor productivity increased 11 percent during 1981-85). By the year 2000, labor productivity is to be 130 to 150 percent higher than in the 1981-85 plan period. According to Ryzhkov, two-thirds of this increase is to be achieved through the assimilation of new technology.
- A release of 5 million workers from manual labor in the 12th Five-Year Plan. All women are to be freed from manual labor by 1990. Over 20 million manual laborers are to be released by the year 2000.
- A release of 10 million people from agriculture by the year 2000. In the 1971-85 period, in comparison, the total agricultural labor force (including those engaged in private agriculture) decreased by less than 3 and a half million.
- Over the 12th Five-Year Plan, a productivity increase in the productive sphere ^a large enough to allow the entire increment to the labor force to go into the service sector, which includes health and education. During 1981-85 the increment was divided approximately equally between production and services. One Soviet economist believes that the number of workers in the productive sphere could decline by 13-15 million by the year 2000, if this sphere could meet its goals for productivity and efficiency.^b

^a The productive sphere includes roughly those sectors of the economy producing material goods rather than services.
^b Vladimir Kostakov, Sovetskaya kultura, 4 January 1986.

apathy and bring public criticism to bear against incompetent managers. Many managers have been dismissed during Gorbachev's tenure. The publicized closing of a Leningrad construction firm in March and a provision in the law on enterprises ⁴ that in theory allows bankruptcy put managers on notice that yesterday's standards were no longer good enough. At the beginning of this year, Gorbachev introduced a stringent quality control program at a number of machine-building enterprises. The rejection of large numbers of products has caused both workers and managers to lose wages and bonuses and has put additional strain on the country's ability to meet its requirements for new capital goods.

Wage Reform: A Wager on the Strong

On 1 January 1987 Moscow introduced a new wage system designed to promote greater rewards for the most productive workers and greater sanctions for the least productive.

The wage reform increases wage differentiation, reversing the direction taken in earlier reforms. Moscow is selling more differentiated wages as "social justice," arguing that it is fairer for workers to be paid according to the quality and importance of their labor. Sharply higher wages will be paid to those with skills vital to the modernization program—top engineering-technical workers, foremen, designers, and workers in machine building (figure 3). The wage reform also widens the differences in pay between the lowest and the highest skill grades to give workers incentive to obtain badly needed technical skills. The law on state enterprises passed in June 1987 goes even further, removing ceilings on wages. Some workers, however, may see little or no increase in pay. Under the new system, jobs will be regraded (meaning some workers will be demoted) and work quotas will be raised.

⁴ Enacted in June 1987.

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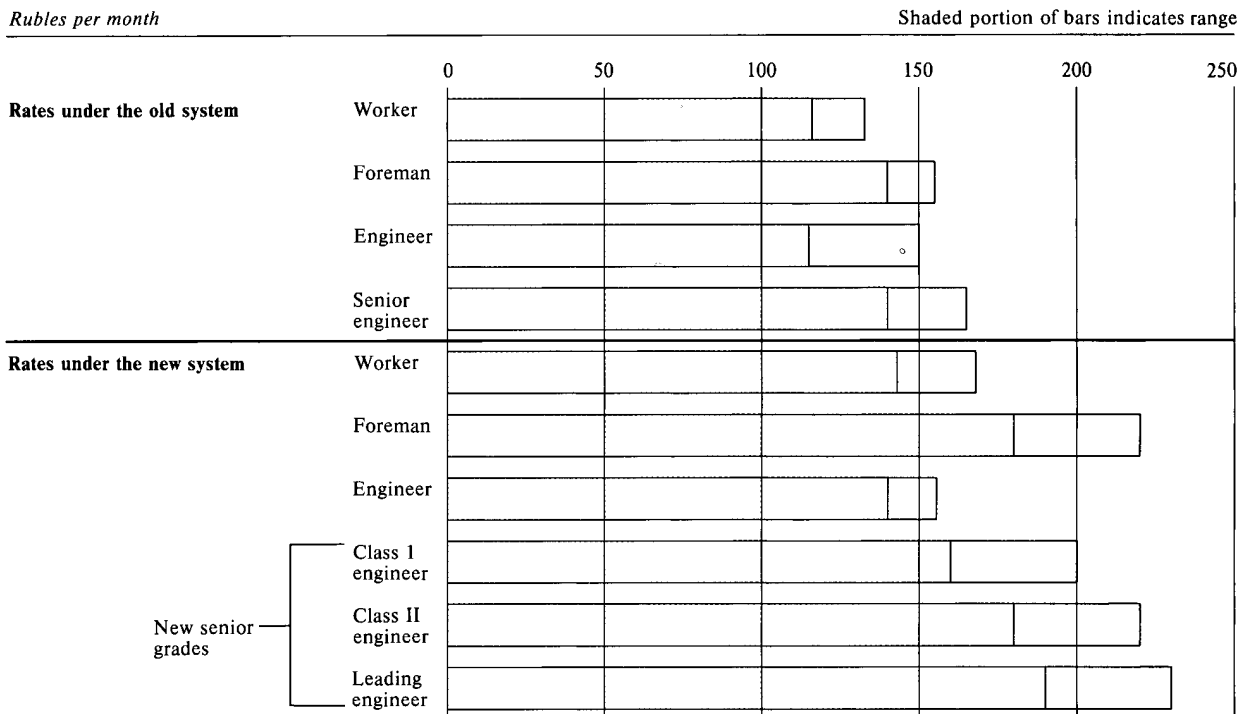
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Figure 3
USSR: New Wage and Salary Rates in
Machine-Building Enterprises^a



^a Bonuses are not included.
 Source: Vladimir Shcherbakov, *Sotsialisticheskiy trud*, Number 1, January 1987.

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Bonuses. The wage reform also includes new regulations aimed at tightening up the payment of bonuses to restore their value as incentives. Bonuses and wage supplements are to be taken away if a worker's performance deteriorates. Moscow has strongly criticized managers who use bonuses to attract and keep workers rather than to reward exceptional performance, charging that under the old system workers were reaping "unearned income." [Redacted]

The new regulations will in effect reduce the funds available to pay bonuses. A portion of the funds that would have gone to bonuses under the old system will be used to finance wage and salary hikes. Bonus payments are to be decreased to less than 25 percent of total income. Under the old system, bonuses made up nearly half of the total earnings for some workers.

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The reduction in bonuses is intended to give centrally set wage and salary rates a greater role in determining income differentials. [redacted]

Finally, the new bonus system offers enterprises and labor collectives more leeway in distributing the remaining bonus funds. There is to be a transition to payment of bonuses to labor collectives as a whole rather than to individuals. The labor collective will decide how to distribute bonuses among its members. Centrally determined indicators for special bonuses will be replaced with "recommendations" to guide enterprises in distributing funds. [redacted]

Staff Cuts. The new wage system is also being used as a lever to make enterprises disgorge excess labor and improve efficiency, an idea tested during 1985-86 on the Belorussian Railway (inset). Under the reform, the state is not allotting funds to cover the new, higher pay scales. Enterprises must pay for them out of their "internal reserves." To do so, they must either raise labor productivity, shift money from the enterprise bonus fund, lay off less productive workers, or employ some combination of these measures. Moscow expects many enterprises to lay off workers. According to a top labor official, 3 million people could be released from their jobs as a result of changes in the wage system during the 12th Five-Year Plan. [redacted]

One group targeted for reduction is specialists. While many specialists and engineers are to get substantial raises, Moscow would like to use the wage reform to redirect the least able of these individuals to blue-collar jobs and raise standards in the technical professions. In conjunction with the reform, periodic job reviews are to be conducted more rigorously, and specialists who are found to be unqualified for the jobs that they hold are to be demoted or released. An earlier version of the wage reform introduced last year in research institutes reportedly led to a number of layoffs. In Gorbachev's words, "We have plenty of people who are engineers by education, but not so many who are engineers by their ideas and by results . . . And those who find themselves among this body of workers by accident should perhaps think about it and find different work. Everything we have should be given to that most talented, most constructive section of the body of engineers." [redacted]

The Belorussian Railway Experiment

The Belorussian Railway experiment is a variation on the Shchekino system first introduced in the mid-1960s. Under the Shchekino system, an enterprise was guaranteed a stable wage fund and the right to cut personnel and use savings in the fund to finance bonuses for remaining workers. The Belorussian system differs in that wage savings are used to finance higher wage rates rather than bonuses. Higher wage rates are presumably a better incentive, because they provide a permanent boost in earnings. [redacted]

The Belorussian experiment was preceded by meticulous preparation. First, staff cuts were made possible by significant technological improvements made on the railroad during 1976-83, including mechanization of 95 percent of loading and unloading work and automation of rail crossings. In 1984 the effort to change the wage system began. The railway decided that wage rates would be raised 20 to 25 percent for workers and 30 to 35 percent for managerial technical personnel. Of 29.4 million rubles needed to introduce the higher wage rates, 23.4 million was to be gained by reducing the work force, and the remaining 6 million rubles from overfulfilling shipment plans. After a two-year study concluded that 10 to 22 percent of work time was wasted, output norms for pieceworkers were raised an average of 20 percent; those for salaried workers on a quota system, up to 15 percent. Next came a partial hiring freeze from December 1984 to May 1985, yielding 5,500 vacancies. [redacted]

In July 1985 the experiment officially began when new wage scales went into effect. Staff cutting also began at this time. The experiment eventually freed up 12,000 workers. The Soviet press hailed it as a great success, claiming that the railway achieved a 22.8-percent increase in labor productivity for the 11th Five-Year Plan (1981-85), compared with a planned increase of only 7.5 percent. The Belorussian experiment was extended to 10 other railroads in 1986. The entire national railroad system is to be operating on the new basis by the end of 1988. [redacted]

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Provisions for Laid-Off Workers. Soviet economists expect that layoffs in industry resulting from wage reform will spur work effort by reducing job security. Moscow insists that this does not mean unemployment, however, because workers released from industry are needed to staff evening and night shifts in factories, to take jobs in the labor-short service sector, and to staff new production facilities in Siberia and the Soviet Far East. The labor is to be reallocated through an expanded network of placement bureaus.

[redacted]

These bureaus, originally established in the late 1960s, operate under the control of the State Committee on Labor and Social Problems. Their goal is to minimize the amount of work time lost between jobs, improve the match between jobseekers and jobs, and give the state greater influence over job choice and labor allocation. A new type of placement bureau is taking an even more intrusive role in the labor market by attempting to track down those not employed in the state sector and force them to take jobs (inset).

[redacted]

In addition, Moscow is attempting to make the transition easier for dislocated workers. Workers are to get at least two months' notice before they are dismissed. They are entitled to two weeks' severance pay. Enterprises hiring released workers are also encouraged to pay these people their former wage while they retrain for new positions.

[redacted]

Giving Workers a Stake in Enterprise Performance

Moscow would like to tie workers' wages to enterprise performance so that "any slackening in the pace of an enterprise's production will mean a direct reduction in the firms' resources for wages and social production and development." Under the law on enterprises, which takes effect 1 January 1988, many more enterprises are to switch to "self-financing." That is, they are to finance their operations from profits and other internally generated funds. With the approval of higher authorities, a self-financing enterprise can choose one of two methods to form its wage fund. The first method is the one now in general use: the wage fund is allocated by the state and therefore guaranteed.⁶ Under the alternative method the wage fund is

⁶ The wage fund is allocated according to a ratio of wages per ruble of output. The three incentive funds—for research and development, for housing and amenities for workers, and for awarding bonuses—come from residual profits.

The Novopolotsk System

A placement system that originated in the city of Novopolotsk in 1982 departs from the tradition of a free labor market in the Soviet Union. The system tracks able-bodied individuals who are neither employed in the socialized sector nor in school. With the cooperation of enterprises, schools, the passport office, and the internal affairs department, the placement bureau registers those who leave jobs or school and those newly arrived in the area. If an individual has not taken a job within three weeks, inspectors from the department of internal affairs are called in to investigate. The individual is compelled to take a job at this time; if he refuses, legal action is taken.

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The Novopolotsk system had spread throughout Belorussia by August 1986. A decree published in December 1986 praised its success and recommended the system for other Soviet cities. So far it has spread through much of Latvia and Georgia and is being introduced in other areas.

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not guaranteed. Wages are paid from the residual from enterprise earnings after deducting other costs. According to one labor official, this "highly promising if harsh principle encourages people to work more economically and show initiative . . . even if it does not guarantee steady wages."

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Workplace Certification

To make it more difficult for enterprises to hoard labor, Gorbachev has also implemented "workplace certification." Under this program, initiated in the machine-building ministries in 1985, enterprises are required to conduct a thorough inventory and evaluation of each "workplace," defined as the work area, materials, and equipment associated with the labor of one person. They are to identify jobs that can be eliminated or upgraded as well as obsolete equipment that can be scrapped to free up labor. The program is meant to provide planners with better information on

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labor requirements. In the past, planners have had difficulty controlling labor hoarding because they had no reliable way to determine which enterprises were using labor efficiently and which were not. This program is also supposed to avoid the creation of excess (empty) workplaces by helping planners to match plans for the construction of new capacity with labor availability. [redacted]

A key goal of workplace certification is to force enterprises to address the problem of manual labor. Enterprises will have to identify manual positions, work out measures to upgrade these slots, and then decide what equipment is needed to carry out the improvements. The elimination of heavy or dangerous jobs is a top priority. Moscow expects stepped-up investment in machine building to facilitate mechanization of such jobs. [redacted]

Extra Shifts

Gorbachev is also asking many workers to go on late shifts. After initial experimentation in Leningrad, the government adopted a decree in February 1987 calling for all Soviet enterprises to transfer to multishift work schedules during 1987-88, a move aimed at accelerating modernization and reversing a long-term decline in the return on capital in Soviet industry. Modern equipment is to be used more intensively, while obsolete equipment is to be scrapped. [redacted]

According to the decree, second and third shifts are to be introduced in industry, construction, transport, and the agroindustrial complex. Primary emphasis will be on machine-building enterprises. The most sophisticated equipment—machine tools with numerical programmed control, machining centers, industrial robots, and computer complexes—is to operate on three shifts a day. Wage supplements and extra leave time are offered as inducements to work evening and night shifts. [redacted]

Education Reform

Moscow has undertaken a two-part reform program that attempts to narrow access to higher education. The reforms aim to get a larger segment of the student population into the labor force earlier, while putting the brightest students through a more rigorous higher education program. The first phase of the

education reform, adopted in 1984 before Gorbachev came to power, attempts to reorient primary and secondary education toward vocational and practical training. Under this reform, which began to be implemented in 1986, vocational training is to be instituted at all educational levels. More students are to be channeled into trade-oriented specialized secondary schools and fewer to academically oriented general education schools, which prepare students for higher education. [redacted]

The second reform, adopted in a series of decrees early in 1987, deals with higher technical and specialized education. It focuses on solving problems that have slowed modernization: the glut of low-quality engineers; a mix of graduates that leaves labor deficits in key technical specialties; outdated educational facilities; and narrow, specialized education characterized by rote learning. The reform calls for tougher admissions and performance standards for students and special training programs for top achievers. New curriculums are to be designed to give students a solid general scientific background to allow them to better adapt to technological change. Less time is to be spent in the lecture hall and more time in independent study and practical production training in enterprise-sponsored facilities. The reform also emphasizes closer ties between industry and education. Enterprises are to draw up contracts with higher educational institutions for graduates in needed specialties and, in return, partially defray their educational expenses. Educational institutions would use this money to upgrade facilities and add much-needed computer equipment. [redacted]

Retraining

A resolution adopted by Moscow in late 1986 aims to improve the retraining of workers to speed the assimilation of new technology. The measure encourages enterprises to move away from informal on-the-job training to a greater emphasis on intersectoral training institutes and study centers organized at enterprises, vocational and technical schools, and higher educational institutions. The resolution calls for more of these facilities to be established and for improvements in curriculums and teaching staff. [redacted]

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Democratization of the Workplace

One of the most difficult problems Gorbachev faces in trying to promote technological progress is fostering initiative and independence at the enterprise level without threatening labor discipline. Traditionally neither workers nor managers have been inclined to take risks, resolve problems, or make decisions independently. According to Gorbachev, workers must "realize that it is up to them to keep their plant in order and that everything depends on them and on their personal involvement in dealing with various problems that arise in industry." At the recent trade union congress, he made it clear: "Start solving these questions," he told the workers, "... the onus is on you." [redacted]

To combat apathy and encourage workers to take a more active role in modernization and restructuring, Gorbachev is offering them more say in running their enterprises.⁷ According to the Law on Enterprises adopted on 30 June 1987, workers will be able to elect enterprise managers, subject to confirmation by superior organs. The law calls for labor councils to represent workers' interests and act as management advisory bodies. The law also stresses that worker participation is to come within the framework of one-man management. Moscow is hoping that elections will produce more innovative managers who will be less influenced by the ministries. [redacted]

Progress Thus Far

Moscow is just beginning its efforts to restructure the economy, and many of the measures undertaken cannot be expected to yield significant gains for several years. Nevertheless, the preliminary results of some programs suggest both the possibilities and limitations of the restructuring process. [redacted]

Reduction in Lost Work Time Proves Hard To Sustain
Gorbachev's drive for temperance and discipline scored initial success, contributing to a reduction in work-time losses in 1986, an important factor behind

[redacted]

improved economic performance. Industrial production increased by 3.6 percent last year, the fastest rate of growth in nearly a decade. The antialcohol campaign reportedly helped raise labor productivity. The Soviet Central Statistical Administration claimed that losses of work time due to unauthorized absences were reduced by one-third in industry and 40 percent in construction during the first six months of 1986. A good performance in the transport sector, which cut supply interruptions, probably contributed to reduced work-time losses as well. [redacted]

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Gorbachev counted on continued gains from these campaigns to boost growth for another two or three years while he put in place longer term measures to raise labor productivity. In his 26 June 1987 plenum report, however, he pointed out that backsliding has already occurred, stating that "in many places the momentum has been lost and work is proceeding extremely sluggishly. The incidence of drunkenness has increased again and idlers, parasites, and pilferers—people who live at the expense of others—again feel at liberty." A report recently published in *Pravda* charged that some localities are relaxing alcohol restrictions and covering up incidents of alcohol abuse in the workplace. According to the report, in the first six months of this year in the Karelian region alone more than 3,500 persons were detained for showing up drunk at work. [redacted]

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The reduction in work-time losses reported in 1986 has not been repeated in 1987. The problems that traditionally have led to the greatest intrashift losses of work time—supply interruptions, poor organization within enterprises, equipment shortages and breakdowns, and, to a lesser extent, discipline problems—have been exacerbated by a number of factors:

- Abnormally harsh weather in January led to extensive interruptions in supply and to some factory shutdowns.
- Implementation of the new quality control system is disrupting production and the supply network, as substandard goods are rejected.
- Implementation of wage reform and resulting staff cuts is generating personnel and organizational problems and is making it more difficult for enterprises to meet production targets.

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- The introduction of multiple shifts is adding to work-time losses, especially on late shifts, because there is a lack of support personnel and disgruntled workers are leaving shifts early.

The disruptive effect of these measures raises the potential for increased work-time losses and labor disturbances. [redacted]

Wage Reform Leads to Layoffs

Moscow appears to be implementing wage reform with the same degree of determination applied to the new quality control system, reportedly leading to thousands of layoffs in industry (inset). While this effort appears to be succeeding in terms of releasing labor, it is not clear whether the staff cuts will result in greater efficiency or simply in confusion, shortfalls in production, and further misallocation of labor. [redacted]

An obsolete price system may get in the way of efficient redistribution of labor resources. Under the wage reform, enterprises with lower profits, and therefore fewer "internal reserves," will have to release more workers to pay the new wage increases. Under the Soviet system of administratively set prices, however, profits are not a reliable reflection of how efficiently an enterprise operates and how well it utilizes its labor resources. Relatively efficient enterprises might have to release labor simply because the prices of their products are set artificially low. On the other hand, enterprises whose product prices are set artificially high would have to cut fewer workers, even though they might be substantially overmanned. A price reform was announced at the June 1987 plenum,⁸ but it will not take effect until 1991 at the earliest—after the wage reform has already been implemented throughout industry. [redacted]

Moscow seems determined to implement wage reform and staff reductions, even in areas where such an effort does not appear to make sense. For example, staff cuts have been reported in the labor-surplus

⁸ This reform is to encompass all forms of prices—wholesale, procurement, and retail prices and rates. Although prices for the most important products will continue to be set centrally, the number of prices that can be fixed by enterprises on their own or by contractual agreement with their customers is to be substantially increased. [redacted]

The Progress of Wage Reform

An October 1987 report of the USSR State Statistics Committee stated that 10 million people had been switched to the new wage system—14 percent of the total number slated to go to the system by 1990. The report criticized the machine-building ministries for making slow progress in implementing the reform. [redacted]

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According to B. I. Gostev, USSR Minister of Finance, as of October 1987 more than 90,000 workers had been released by the USSR Ministry of the Petroleum Industry. [redacted]

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According to L. A. Kostin, First Deputy Chairman of the USSR State Committee on Labor and Social Questions, 280,000 workers had been released from the 32 Soviet railways as of 1 July 1987. Kostin also cites some problems and distortions that have accompanied wage reform:

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- On "miscalculations" in setting work quotas: "Some strange examples occur: at one enterprise wage rates rose 22 percent, so work quotas were revised by the same amount and earnings fell (because workers lost bonuses they would normally get for overfulfilling quotas)."
- On ineffective bonuses: "Three out of every four enterprises checked in May had not changed the workers' bonus system at all. And designers, technologists, and other specialists once again are paid bonuses not for developing new equipment or technology, but for volume indicators."
- On wage-leveling: "The restructuring of the wage system provides for an average increase . . . of 30 to 35 percent for specialists' salaries . . . but even now the anticipated improvement has often not occurred. Specialists' salaries are increasing by 20 to 22 percent. This is happening where enterprises have failed to accumulate the necessary resources. Furthermore, during the recertification of qualifications many specialists were downgraded and thus there was no salary increase at all." [redacted]

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regions of Central Asia and the Transcaucasus even as local leaders are campaigning to create more state jobs to employ people who are currently making a living, often illegally, in the private sector. Even before staff cuts began, the Soviet press reported that there were over 1 million such persons in Uzbekistan alone. One Turkmen official recently complained that staff cuts are "leading to an increase in the proportion of people employed in home work and on private subsidiary plots and prevent the problem of making efficient use of manpower from being resolved." Moscow is undoubtedly hoping that some of the workers released in the southern republics might migrate northward. The indigenous nationalities are reluctant, however, to leave their homes. [redacted]

The staff cuts that have been reported so far involve only a small fraction of the labor force, and it is possible that ministries in some cases could be shifting labor within a sector rather than releasing workers for other sectors. Nevertheless, the current wage reform does appear to be leading some enterprises to shed workers. [redacted]

Bureaucratic Foot-Dragging Impedes Workplace Certification

The 1986 plan fulfillment report complained that workplace certification "is failing to produce tangible results in many sectors." Evidently the program is falling short of its goal of eliminating workplaces and speeding the retirement of obsolete equipment. By December 1985, 84 percent of the work positions in industry had been examined, yet less than 1 percent of these positions were taken out of production. At the same time, the retirement rate of productive fixed capital rose only slightly, from 1.9 percent in 1985 to 2.0 percent in 1986. [redacted]

The problem is that enterprises themselves have the responsibility for carrying out certification, and they still have a strong incentive to maintain the status quo by doing a less-than-thorough job. Ministries have been slow in providing the necessary documentation and instructions to carry out certification, and enterprises have trouble obtaining the labor and materials necessary to upgrade work positions. [redacted]

Shift Work

The multishift system proved unpopular when introduced on an experimental basis in Leningrad last year. Some workers transferred to night shifts quit, while others responded by leaving shifts early or slacking off. The local press also published complaints that transport and consumer services, as well as catering at enterprises, were inadequate to handle the late shifts. [redacted]

Nationwide implementation of the system is bringing more problems. Enterprises are finding it difficult to finance wage supplements for night workers because they are already struggling to finance the wage reform. According to labor official L. A. Kostin, "considerable resources were needed for the transition to the new wage rates and salaries. Then came the transfer of enterprises to multishift working. In some places there was no money to pay for the evening and night shifts." Kostin goes on to say that it would be impossible for the state to subsidize the increased night rates because "it would cost several billion rubles to implement such a measure." [redacted]

The shortage of appropriately skilled workers also will make it difficult for enterprises to add extra shifts. Even though first shifts are often overmanned, the surplus workers are relatively unskilled. Considerable training would be required before such workers could man the sophisticated equipment that is now supposed to be operated on three shifts. Many workers would be unwilling or unable to make the switch. Moreover, if machines are run constantly, the incidence of breakdowns will probably rise, exacerbating the shortage of trained repair workers. [redacted]

Despite problems encountered in Leningrad and elsewhere, Moscow is pushing hard for wide-scale implementation of multishift work schedules, and enterprises are scrambling to comply. As one manager commented at a public lecture, "Look, we were directed by the party to institute the system and not to study whether it was appropriate or not. Our enterprise managers are all Communists and they proceeded vigorously to implement the directive. I know of one director who fought against it, and he was expelled from the party." [redacted]

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A Barrier to Tying Wages to Enterprise Performance

Problems could arise if Moscow chooses to push self-financing enterprises into adopting the new method of forming the wage fund set out in the law on enterprises. Until a new price system is put in place, it will be difficult to tie workers' wages to enterprise performance by making the wages the residual of enterprise earnings after deducting other costs. One labor official admitted that this method cannot be effectively implemented under the current price system, because it would "create conditions that are more to the advantage of some enterprises than others." It will take several years for planners to work out and implement the necessary revisions in the price system, and even then there is no guarantee that the revised system will work effectively. [redacted]

Simulating Success

The measures undertaken thus far by Gorbachev offer only incomplete—and in some cases contradictory—solutions to the country's labor problems. They do very little to give the system the flexibility it needs to modernize. Unless more far-reaching reform is implemented, these early measures may fall victim to the systemic barriers that stalled earlier efforts: taut planning, high output targets with accompanying waste and inefficiency, an inflexible price system, strong incentives to hoard labor, and foot-dragging and interference by ministries. Moreover, many of Gorbachev's measures appear to have been hastily drawn up and poorly thought out. This is causing confusion and additional problems as they are implemented. [redacted]

Faced with growing demands to improve product quality, modernize operations, and add extra shifts, many enterprises will attempt to circumvent the rules, particularly the rules for cutting staff. Gorbachev's programs have not obviated the need for extra workers: the diversion of industrial labor for the harvest still occurs on a massive scale, output targets remain high, and supply problems persist. Moreover, some of the new programs have exacerbated the situation. Work position certification is a time-consuming and labor-intensive process that takes workers away from their production duties (inset). Quality control has

How Many Workers Does It Take To Certify a Workplace?

In Western Siberia, there are 11,000 [types of] work positions, each of which is evaluated on the basis of 16 indicators, including some which are made up of several factors. According to regulations, shop-level certification commissions are headed by the shop chiefs. These include foremen, mechanical and other engineers, power production personnel, specialists in job performance standards, personnel from public organizations, brigadiers, and distinguished workers. If each commission of eight to 10 persons spent between one and one and a half minutes discussing each indicator, more than 5,000 man-days would go into calculating the figures for and assembling the requisite documentation alone. It would take an office of 20 men a year to do this amount of work. [redacted]

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Sotsialisticheskaya industriya, 31 October 1986.

compounded supply problems and increased the need for extra workers to rework defective products and "storm"⁹ to make up for delays. [redacted]

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Some enterprises are already finding ways around the rules. Managers have falsely reclassified manual jobs as mechanized. Enterprises have avoided cutting staff by demoting workers. To finance wage supplements for night workers, enterprises have reduced the pay of workers on the day shift. The shift system is supposed to be accompanied by the retirement of obsolete equipment, but at the February trade union congress Gorbachev complained that some managers have complied with the multishift decree simply by moving half of their workers to a second shift, leaving 50 percent of capacity unused on each shift. [redacted]

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⁹ When supply disruptions or other problems cause enterprises to fall behind on their plan targets, the enterprises compensate by last minute "storming," or working at a feverish pace, sometimes around the clock. This practice leads to shoddy workmanship and poor product quality. [redacted]

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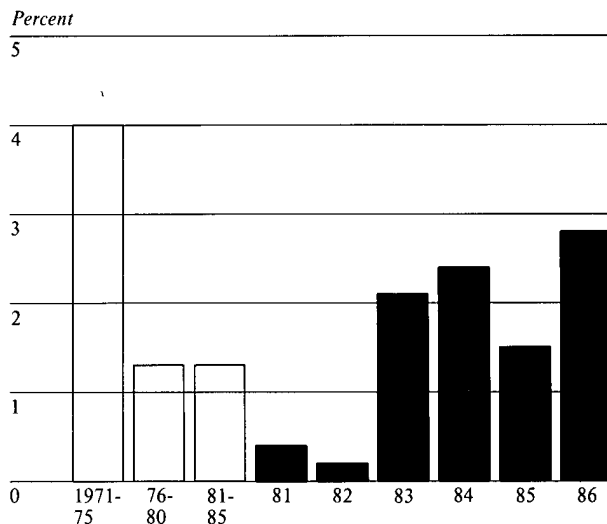
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Implications for Labor Productivity and Industrial Modernization

Gorbachev's policies could yield dividends for the modernization effort in the long term. If Moscow can put effective constraints on labor hoarding, and in the process reduce job security, the performance of both workers and managers should improve. More rigorous standards in higher education and greater wage differentiation could reinvigorate the engineering and technical professions. Over the short term, however, it will be hard for Moscow to achieve the improvements in work effort it needs to boost modernization. The discipline campaign is flagging, and it will be difficult to motivate workers with higher wages until higher quality consumer goods and services are available. The country faces a difficult period of adjustment as reforms are implemented. If Moscow pushes too hard—particularly on wage reform—transition costs could be high in terms of disruptions in production and popular resentment.

While some enterprises introducing the new wage system may be able to make initial staff cuts and raise labor productivity through better organization and combining jobs, most need better equipment and time to upgrade workers' skills. The success of early labor-saving experiments was largely the product of careful preparation at the enterprise level as well as preferential access to resources, which allowed enterprises to mechanize jobs and release workers. As staff cuts are administered throughout the economy, many enterprises will not have these advantages and their production could suffer if labor reserves are depleted. Early this year *Pravda* examined problems encountered in the application of the Belorussian experiment to other railroads. According to the newspaper, "the first initiators of the experiment improved the supply of equipment to all sections, upgraded technology, introduced electronics to the management of the transportation process, and almost completely mechanized loading and unloading at some sections." Now that the experiment is being spread to other railroads, however, "poor material and technical supply and other factors hinder and discredit the Belorussian initiative."

Figure 4
USSR: Estimated Average Annual Growth in Industrial Labor Productivity



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As the wage reform spreads, the timely arrival and assimilation of machinery that can replace workers will be critical. In this respect, current problems in machine building are a bad sign. Despite the massive increase in investment being pumped into machine building, the sector is having serious problems with poor quality and failure to meet delivery schedules. Articles in the Soviet press complain that the mix of machinery currently being produced will not support the planned reduction in manual labor. The output mix needs to be adjusted toward machines for auxiliary processes, an area long neglected. There is still a severe shortage of basic materials-handling equipment, such as forklifts. Apparently, not much progress has been made in this direction. Gorbachev's push for high output may even reinforce the bias toward machines for the main production processes, which produce items that count toward plan fulfillment,

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making it difficult for enterprises to release auxiliary workers. When widespread application of the wage reform begins in 1988, problems already showing up at enterprises could mushroom.

Worker Resentment

Soviet workers have traditionally accepted shabby living standards, shortages, and long lines in return for a low level of work effort, guaranteed jobs, egalitarian wages, and automatic bonuses. As Gorbachev attempts to change the nature of this implied contract, he will have to move carefully to avoid disaffecting blue-collar workers, who have much to lose and little to gain.

Gorbachev's labor policies are biased toward the technical and managerial elite, offering them sharply higher wage rates and more status, while narrowing access to these fields and reducing job security. In contrast, a number of his policies will make life more difficult for blue-collar workers, at least over the short term:

- *Alcohol restrictions.* The antialcohol campaign has caused resentment about higher prices and reduced availability of alcohol.
- *Higher performance standards.* Work norms are being raised under the new wage reform, making bonuses harder to get.
- *Wage differentiation.* The Soviet press has published letters from workers charging that the new wage system amounts to "social injustice" (inset). Some groups of workers write that they have been short-changed. Others complain that enterprises severely cut bonuses and demoted workers to lower grades in order to introduce higher pay scales. Many claim that they are working more for an insignificant gain or even a loss in earnings.
- *Shift work.* The burden of working late shifts falls almost entirely on blue-collar workers.
- *Quality control.* The measure that has had the most immediate and negative impact on workers is the new quality control system. When state inspectors reject output because of low quality, it is not counted toward plan fulfillment, and workers' wages

Three Letters Question Wage Reform: How Is This Really Supposed To Work?

—*The staff of our trust is supposed to be reduced by 25 people. The changes that were contemplated in connection with this were not discussed in the collective. It was all decided in secret in the office of the deputy director of the trust, M. Kuptsov. A few posts with a salary of 100 to 150 rubles were eliminated. At the same time two vacant (300 to 350 ruble) deputy director slots on the management staff were retained. Now I ask you, why does a trust with a staff of 200 people need to have four deputy directors and a chief engineer?*

—*In our small group the introduction of the Belorussian method resulted in the release of three people. Consequently, the volume of work increased for all [the remaining workers]. It seems like our wages should increase too, but that didn't happen. Before we got 95 rubles a month with bonuses of another 40 to 50 percent. With the introduction of the new wage conditions, our wage rates increased. But now we get only the wage, not the bonus. We turned to the head of the depot for an explanation . . . the only answer was that the funds aren't available . . . When they cut staff we workers feel it ourselves, but when they give raises, we see other people getting them.*

—*In connection with the introduction of the new wage system, all the workers of the electrical mechanical department—more than 100 people—were informed that they would have their skill grade lowered and their existing bonuses taken away. Before grades are lowered, written agreement must be given; that is, you must sign up on a roster put together for this purpose. Some people did this, fearing that they would otherwise get on the bad side of management and lose their place on the waiting list for an apartment. Indeed, those who don't agree can get a request from the qualifications commission to requalify for their previous grade. But when this happens . . . they are given to understand that they must fail the exam. Is the goal of restructuring really to rob workers of their legitimately earned grade?*

Sotsialisticheskiy trud, No. 7, July 1987.

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and bonuses are reduced. Furthermore, overtime is often required to repair defective goods. Workers resent being held responsible for something that they often feel is beyond their control. For example, low-quality goods in one factory may stem from low-quality inputs, or from delayed supplies and the resulting need to "storm" to fulfill the plan on time. In general, low quality is the fault of the Soviet emphasis on quantity over quality—until now quantity has always been the chief determinant of how much a worker earns. [redacted]

Layoffs

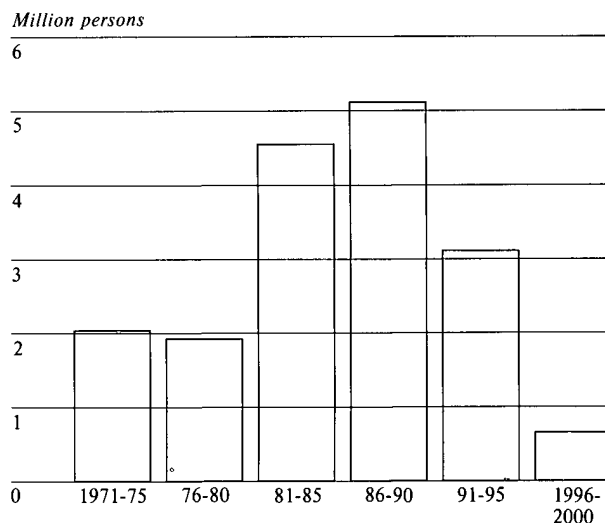
Layoffs are potentially the most volatile issue facing Moscow over the next few years. Under Gorbachev the possibility of unemployment in the Soviet Union has been openly discussed. One of the boldest statements came from Nikolay Shmelev, writing in the April issue of *Noviy mir*:

A real danger of losing your job and going onto a temporary allowance or being obliged to work wherever you are sent is a very good cure for laziness, drunkenness, and irresponsibility. Many experts believe that it would be cheaper to pay an adequate allowance to people temporarily unemployed in this way for a few months than to keep in production a mass of idlers who fear nothing and who can (and do) wreck any economic accountability and any attempt to improve the quality and efficiency of social labor. [redacted]

Gorbachev publicly discounted Shmelev's statement, saying that unemployment "won't do" for the Soviet Union. While he acknowledges that workers will be displaced, Gorbachev backs away from the idea of Soviet unemployment, insisting that Moscow will "ensure social guarantees for working people's employment and constitutional right to work. The socialist system has this potential." Moscow insists that released workers can be speedily placed in new jobs. [redacted]

Many workers will not have to be placed; they will simply retire. Working pensioners and those nearing pension age could make up a substantial share of the required cutbacks for many enterprises through the

Figure 5
USSR: Increments to the Pension-Age Population



Source: Godfrey Baldwin, *USSR: Population Estimates and Projections, 1970-2020* (Center for International Research, Bureau of the Census), November 1984.

[redacted] 314869 11-87

early nineties. There are currently 10 million pensioners working in the productive sector. The number of workers reaching retirement age will grow substantially during the 12th Five-Year Plan (figure 5). Early experience with staff reductions indicates that older workers are the first to lose their jobs. This was the case in the Belorussian Railway, where approximately 40 percent of those released by November 1986 went on pension. [redacted]

Dismissing pensioners rather than younger workers probably reduces the possibility of labor disturbances over layoffs, but it may cause hardship for some older people. Pensions in the Soviet Union are meager, and they are not adjusted to the cost of living. [redacted]

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Many older workers who are not dismissed will face difficult adjustments as their jobs are mechanized. According to a Soviet survey, middle-aged and older workers—who form the majority of unskilled laborers—often resist mechanization. They complain that it does not make jobs more satisfying, particularly when it results in monotonous assembly-line work. Many such workers suffer a reduction in income as they lose bonuses for heavy or dangerous work, or benefits accrued over a long tenure in their former jobs. [redacted]

Although there are many unfilled jobs waiting for younger workers who are released from industry, available positions are likely to be increasingly less desirable as layoffs proceed. Some workers could be absorbed by expanding industries if they have the requisite skills. Many of those laid off, however, are likely to be unskilled. Many more may have to take jobs on evening and night shifts. Eventually, the search for a new job could become more difficult and workers might have to settle for jobs in the low-paying service sector or in climatically severe regions of Siberia or the Soviet Far East. Although the state provides two weeks severance pay and wage supplements during the retraining process, the transition will be difficult for some. Workers laid off from an industrial enterprise lose access to any amenities it provides: housing, clinics, stores, and recreational facilities. [redacted]

The system of placement bureaus will have to expand and change its focus to handle the increase in layoffs effectively. L. A. Kostin, deputy chief of the State Committee on Labor and Social Problems, has admitted that problems could arise in the future. The bureaus are generally not well equipped to facilitate interregional shifts in labor. They operate on a local and not a national level, relying on nearby enterprises for both funding and information on job vacancies. The quality and availability of labor placement services vary greatly from region to region. The network of placement bureaus in Belorussia is held up as a model for the rest of the nation. Expanded to 150 cities and districts in the republic in 1986, it played an important role in placing the workers released from the Belorussian Railway. In contrast, some areas where layoffs are already taking place have yet to

establish a local placement bureau. The Soviets hope to eventually establish a nationwide, computer-based information-sharing system, but this is still far in the future. [redacted]

Some categories of workers will be difficult to place. Evidently there have already been problems finding work for specialists released last year from research institutes. When asked in a September 1987 interview about “management and scientific cadres left without a job in the capital,” Kostin admitted that “there is no final answer yet” to this “complex question.” [redacted]

Delayed Rewards

Gorbachev is demanding more of workers in return for a reward of higher living standards, which, he admits, will be delayed for some years. In his February address to the trade union congress, he cautioned, “It is necessary to work in a different manner at every workplace. . . . However, people will not be paid more for this.” Later that month he predicted, “the next two to three years will be the most difficult.” [redacted]

It will be difficult for Gorbachev to convince the Soviet worker—made cynical by years of campaigns, promises, and exhortation—that a more prosperous future will indeed materialize if he increases his effort. Members of the intelligentsia may be excited by *glasnost* and the reform discussion, but the average worker will believe in change when he sees it on the store shelves and on the shop floor. According to a poll published in *Izvestiya*, 75 percent of managers in 500 Moscow-area enterprises felt that reform was having a noticeable effect. In contrast, half of the 6,000 workers questioned saw no signs of benefits or restructuring other than increased workloads. The other half responded that restructuring was going on, but with many difficulties. “We are all impatient . . . to get a payoff: new goods, a higher salary, a better apartment . . . but today the majority of the people feel restructuring only in the growing intensity of labor.” [redacted]

Improvements in the consumer sector will have to be made if any new incentive system is to be effective. The benefits of widening wage differentials will be greatly diminished if higher wages cannot buy a

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productive worker a substantially better way of life than that of his less productive coworkers. As things currently stand, both are queuing up for the same shoddy goods and services. Gorbachev has initiated a number of measures to improve consumer goods and services on the cheap, including a new law on individual labor activity that would presumably make it easier for private citizens to fill in some of the gaps left by the state sector. However, unless more resources are diverted to the consumer sector, and unless consumers are given more influence over producers, major improvements will be difficult to achieve. [redacted]

A key question for the Gorbachev regime will be how long workers can put up with increasing demands without seeing any material benefit for their efforts. There are already signs of growing discontent, including work stoppages and incidents of sabotage connected with quality control, unsafe working conditions, and proposed staff cutbacks (inset). [redacted]

Moscow also runs the risk that encouraging more democracy and greater worker participation might unleash forces difficult to control. Gorbachev wants workers to support restructuring more actively; he does not want them to form an independent movement to advocate their own interests—which in many cases conflict with labor policies. On the other side of the coin, if workers perceive democratization as a sham, it may increase their apathy. Passive resistance poses an equal, if not greater, threat to the reform process. According to Gorbachev, “we shall make no headway unless we completely overcome the forces of inertia and braking, which are dangerous in that they may once again envelop the country in a state of stagnation and lethargy, which threaten ossification of society and social corrosion.” [redacted]

For now, Gorbachev is offering workers intangibles: “social justice,” more democracy, and the possibility of breaking with the past. He is hoping that dissatisfaction with the old way of doing things will move workers to support restructuring, even if it does not serve their interests in the short run. He faces an uphill battle to win over a conservative and cynical work force. [redacted]

Labor Disturbances: Reforms Go Over With a Whimper and a Bang

Sabotage at Siberian Mining Complex. *In the first half of this year a series of explosions occurred at the Norilsk Mining and Metallurgical combine. Several of them are confirmed as sabotage. Among the problems currently causing unrest are unsafe working conditions, delayed payment of wages, fewer bonuses, and demotions and layoffs connected with wage reform. In the next two years over 8,000 workers are to be released from the combine.* [redacted]

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Busdrivers Protest Wage Reform. *In September Moscow News reported that busdrivers in the town of Chekhov stopped work for half a day following the introduction of new wage scales. While local officials estimated the reform had reduced drivers' wages by an average of 10 rubles per month, drivers claimed an average reduction of 75 rubles. One busdriver complained that it is hard to raise productivity with buses that are always breaking down and “look like tanks after a battle.” According to Moscow News, an hour and a half after the work stoppage began transport officials were on the scene and within three days local party officials were handling the matter.* [redacted]

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Quality Control Sparks Protests. *Several work stoppages connected with quality control have been reported, including “stormy protests” at the Kama Truck Factory.* [redacted]

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Areas To Watch

Developments in a number of areas will have an impact on how well the labor force accepts Gorbachev's policies in the coming years:

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- *The consumer sector.* In light of the flagging discipline campaign, it becomes increasingly important to find other means to motivate the work force. Better quality and availability of goods and services would improve work incentives, counteract popular

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resentment to Gorbachev's programs, and gain some additional support for restructuring. Recent statements indicate that leadership concern in this area is growing.

- *The machine-building sector.* Increased production of materials-handling equipment, including both simple devices such as forklifts and more specialized machinery, is needed to replace the large number of manual workers who will retire or be laid off in the next few years. Failure to produce sufficient quantities of this equipment would make it difficult for enterprises to operate with fewer workers.
- *Layoffs.* An increase in benefits provided released workers might signal that Moscow aims to continue its laborsaving policy even as jobs become more difficult to find.
- *Handling of strikes.* In the past, Moscow has effectively managed disturbances by making quick concessions to workers' demands, increasing food supplies to the affected area, imposing an information blackout to prevent the strike from spreading, and, some time later, arresting or transferring strike organizers. This strategy would be less effective against more broadly based popular resentment. Moscow apparently is trying new tactics to avert or defuse labor unrest. Soviet sociologists are conducting public opinion polls to gauge workers' response to reform measures and publishing their findings in the press. Some strikes, such as the one at the Kama Truck Factory, are also being reported in the press. In some cases Moscow has managed to head off disturbances over quality control by sending top propagandists out to enterprises to "educate" workers.
- *The trade unions.* Democratization, layoffs, and other changes in enterprise organization and operation call for a different role for the trade unions, which traditionally have functioned primarily as an arm of the local party and the factory management.

Soviet workers seem to consider their unions more as administrators of recreational facilities and activities paid for by union dues rather than as lobbyists for improving working conditions. The unions may have to be more active in representing workers' interests to keep democratization from straying into unauthorized channels.¹⁰

- *Price reform.* The effectiveness of price reform will help to determine the relative success of the attempt to make enterprises "self-financing" and to tie workers' wages to enterprise performance. The reform could also have an impact on worker attitudes. Among other things, the new pricing system is to reduce the state subsidies of consumer prices, including those for some foods and rents. While some economists believe that the gains and losses will balance out if prices are set at realistic levels, the possibility of price increases is already causing anxiety among workers.
- *Output targets.* If, during the period of adjustment to new conditions, the leadership relaxes the pressure for quantitative gains in output in favor of stimulating higher quality, more efficient use of newer technology, and decentralized decisionmaking, Gorbachev's policies could begin to take hold, bringing higher returns on new capital equipment, an increase in the effectiveness and productivity of the labor force, and a progressive reduction in economic disruptions. On the other hand, continued emphasis on high output targets could signal a difficult and disruptive period for the Soviet economy as enterprises attempt to implement the reform measures.

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Appendix

Constraints on the Industrial Labor Supply

Gorbachev's efforts to raise labor productivity and enforce labor saving measures in industry are driven in part by constraints on the supply of industrial workers. A combination of factors will limit the growth of the industrial labor force well into the 1990s.

Labor Deficit in Industrialized Regions

The working-age population of the industrialized regions of the European USSR and Siberia is actually declining and will continue to do so through 1995. During this period, most of the increment to the Soviet working-age population will come from Central Asia (table 4), where workers generally have less education, fewer skills, and less plant and equipment to work with than elsewhere in the country.

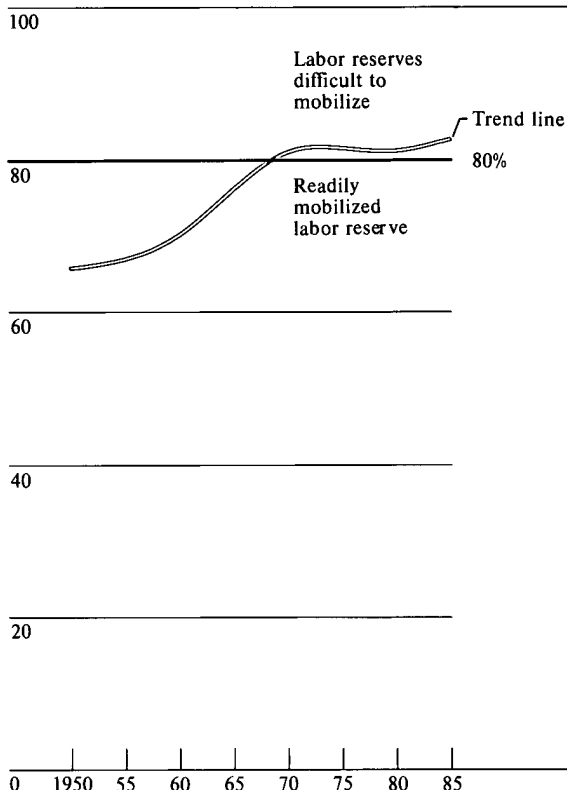
In the near term Central Asians are unlikely to move to the urban industrial centers of European Russia on a scale large enough to offset the shrinking of the labor pool there. Comparison of the 1970 and 1979 census results reveals that Central Asians are becoming even more concentrated in their own republics or elsewhere in Central Asia (table 5). Reasons for this reluctance to move include: Central Asians' cultural attachment to their homeland, the language barrier, ethnic prejudice, the higher cost of living in European Russia, and the absence of established Central Asian neighborhoods in the north that could act as poles of attraction.

High Labor Force Participation

Moscow can recruit few additional workers for industry by encouraging greater labor force participation because most of the adult population in industrialized regions of the Soviet Union is already working (table 6). While in 1950 there was a relatively large reserve of the working-age population not active in the work force, by the 1970s labor force participation had risen to more than 80 percent of the working-age population (figure 6). When participation rates reached this level, however, it became much more difficult to mobilize the remaining labor reserve—consisting

Figure 6
USSR: Shrinking Potential of Reserve Labor

Employment as percent of able-bodied population^a



^a Ages 16-59 (men)/16-54 (women).

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largely of students, housewives, pensioners, the disabled, and those between jobs. As a result, the labor force participation rate has leveled off since

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Table 4
USSR: Increases in Soviet Working-Age Population by Demographic Region ^a

Million persons as of 1 July
(except where noted)

	European		Transitional		Central Asian	
	Working-Age Population	Average Annual Rate of Growth (percent)	Working-Age Population	Average Annual Rate of Growth (percent)	Working-Age Population	Average Annual Rate of Growth (percent)
1970	108,582		14,497		8,631	
1975	117,310	1.6	16,702	2.9	10,700	4.4
1980	124,264	1.2	18,683	2.3	12,846	3.7
1985	124,174	0	19,913	1.3	14,747	2.8
1990	123,228	-0.1	21,190	1.2	16,904	2.8
1995	122,172	-0.2	22,405	1.1	19,455	2.9
2000	124,389	0.4	24,143	1.5	22,679	3.1

Source: Godfrey Baldwin, *Estimated and Projected Population of USSR: 1970 to 2025* (Center for International Research, US Bureau of the Census) November 1984.

^a The European region, characterized by low birthrates, includes the RSFSR and the Latvian, Lithuanian, Estonian, Belorussian, and Ukrainian Republics; the transitional region, characterized by

marked declines in birthrates, includes the Kazakh, Azerbaijan, Georgian, Armenian, and Moldavian Republics; the Central Asian region, characterized by high birthrates, includes the Uzbek, Turkmen, Tajik, and Kirghiz Republics.

Table 5
USSR: Distribution of Major Central Asian Nationalities

	Population (millions)		Percent Residing in Own Republic or Elsewhere in Central Asia	
	1970	1979	1970	1979
Uzbek	9.195	12.456	96.8	97.2
Tajik	2.136	2.898	98.4	98.5
Kirghiz	1.452	1.906	98.5	98.5
Turkmen	1.525	2.028	98.3	98.5
Kazakh	5.299	6.556	90.8	91.8

Sources: *Itogi Vsesoyuznoy perepisi naseleniya SSSR 1970 goda*, vol. IV, *Natsionalniy sostav naseleniya SSSR* (Moscow: Statistika, 1974) pp. 9-15; *Vsesoyuznaya perepis' naseleniya 1979 goda* (Moscow: Finansy i statistika, 1984), p. 155.

Table 6
USSR: Labor Force Participation Rates by Sex and Age Group

Percent

	1959	1970	1979
Males	89	88	87
Females	69	82	84
Age Group			
16-29	78	74	76
30-49	80	93	96
50-54/59	70	80	84
Pension age ^a	23	13	11

Source: L. Chizhova, "Kak luchshe ispolzovat trud razlichnykh sotsialno-demograficheskikh grupp naseleniya," *Sotsialisticheskiy trud*, No. 8, August 1984.

^a Chizhova's estimates exclude private farming and part-time employment. If these activities are taken into account, the participation rate of the pension-age group becomes roughly a third in 1980.

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Table 7

Thousands

USSR: Employment ^a

	1970	1975	1980	1981	1982	1983	1984	1985	1986
Civilian employment ^b	107,186	117,560	125,998	127,161	128,263	129,052	129,829	130,300	130,900
Industry	31,593	34,054	36,891	37,236	37,610	37,830	37,957	38,103	38,200
Construction	9,052	10,574	11,240	11,298	11,299	11,315	11,349	11,492	11,660
Agriculture ^a	26,419	25,921	25,150	25,014	25,119	25,165	25,206	25,040	NA
Transportation and communications	9,315	10,743	11,958	12,172	12,337	12,438	12,487	12,549	12,561
Trade and services ^c	29,376	34,565	38,865	39,530	39,940	40,309	40,784	41,336	41,788

^a Excludes private agriculture, but includes nonagricultural employment subordinate to agricultural enterprises.

^b Sectors shown do not add to the totals.

^c Includes trade, public dining, material-technical supply and sales, procurement, housing, communal economy, and personal services, health services, education, culture, art, science, and scientific services, credit and insurance organizations, and government administration.



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Table 8

Percent

USSR: Average Annual Employment Growth ^a

	1971-75	1976-80	1981-85	1983	1984	1985	1986
Civilian employment ^b	1.9	1.4	0.7	0.6	0.6	0.4	0.5
Industry	1.5	1.6	0.6	0.6	0.3	0.4	0.3
Construction	3.2	1.2	0.4	0.1	0.3	1.3	1.5
Agriculture ^c	-0.4	-0.6	0.2	0.2	0.2	-0.7	NA
Transportation and communications	2.9	2.2	1.0	0.8	0.4	0.5	0.1
Trade and services ^c	3.3	2.4	1.2	0.9	1.2	1.3	1.1

^a Excludes private agriculture, but includes nonagricultural employment subordinate to agricultural enterprises.

^b Sectors shown do not add to the totals.

^c Includes trade, public dining, material-technical supply and sales, procurement, housing, communal economy, and personal services, health services, education, culture, art, science, and scientific services, credit and insurance organizations, and government administration.



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1970. Some Soviet economists are now advocating a reduction in the number of women and students in the work force, citing the substantial costs the Soviets pay for high labor force participation in terms of depressed birthrates and loss of instruction time for students. [redacted]

Slow Decline of Agricultural Employment

The low productivity of the USSR's vast agricultural labor force has kept demand for farm labor high and has markedly slowed the transfer of labor from agriculture to industry.¹¹ Employment in socialized agriculture decreased at an average annual rate of less than one-half of 1 percent during 1971-85 (tables 7 and 8). In 1985, state and collective farms accounted for a 19.2-percent share of total employment in the socialized economy. If private agricultural activities are taken into account, this proportion grows to 25.2 percent, compared with less than 3 percent in the United States. To accelerate the movement of labor out of agriculture, the Soviets would need a breakthrough in raising the productivity of farm labor—major improvements in the quantity, quality, and assortment of agricultural machinery, storage and maintenance facilities, and incentives for farms to use

equipment effectively. Because such a breakthrough is unlikely to occur in the next few years, the outflow of labor from agriculture will probably remain sluggish for the foreseeable future. [redacted]

Service Sector Absorbs New Entrants to the Labor Force

Employment in services has grown faster than employment in industry—between 1970 and 1985 it increased at an average annual rate of 1.2 percent compared to 0.8 percent in industry. In 1981-85 half of the new entrants to the labor force went into the service sector. In 1986-90 the entire increment to the labor force is slated to go into health, education, and other sociocultural spheres to alleviate labor shortages that have hampered efforts to raise the Soviet standard of living and improve work incentives. [redacted]

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