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ECONOMIC INTELLIGENCE REPORT

THE CURRENT WAGE REFORM IN THE USSR



CIA/RR 96
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CIA/RR 96
(ORR Project 41.1796)

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THE CURRENT WAGE REFORM IN THE USSR*

Summary and Conclusions

The Sixth Five Year Plan (1956-60) in the USSR sets ambitious targets for production which, in view of smaller annual increments to the labor force, depend in large part for their success on substantial increases in output per worker. Recognizing this, the USSR has embarked on a major campaign to improve industrial labor productivity. An important part of this campaign is the decision to overhaul the wage system with the primary objective of relating individual earnings more closely to quantity and quality of output. The regional development plans outlined in the Sixth Five Year Plan also require a major redeployment of the labor force. Eschewing the use of coercion, the government has chosen to obtain the desired allocation of workers by offering suitable economic incentives, thus necessitating a further revision of the wage structure.

Besides strengthening the role of economic incentives in promoting productive efficiency and in allocating the labor force, the current wage reform is intended to correct a number of specific defects identified since the last over-all wage reappraisal in 1932. The most important of these defects are as follows: (1) average earnings more than doubled between 1940 and 1956, but base rates and salaries increased very slightly, so that at present only about half of the workers' earnings consist of base wages, with various kinds of bonuses and supplements providing the rest; (2) work norms for the most part no longer represent true output standards, because they are regularly overfulfilled by 50 to 100 percent; (3) the wage system has become extremely complicated, and a wide diversity of wage practices characterizes the operations of ministries and enterprises; (4) inequitable occupational, industrial, and geographical wage differentials have become prevalent; and (5) the widespread use of progressive piece rates and similar bonus systems has contributed to persistent overexpenditure of wage funds.

* The estimates and conclusions contained in this report represent the best judgment of ORR as of 1 July 1957.

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The wage reform was inaugurated in 1955 with the establishment of the State Committee on Labor and Wages. On the national level the following changes have been made: (1) the basic principles governing the wage and norm changes have been worked out for most industries by the State Committee on Labor and Wages and by the responsible ministries, (2) a uniform five-zone system of geographical wage differentials has been approved, (3) higher minimum wages have been established, (4) the procedures for revising work norms have been changed, (5) a new system of bonuses for technological improvements has been decreed, and (6) controls over wage fund expenditures have been tightened. With respect to individual industries, a complete overhaul of wages and norms in the construction industry took effect on 1 January 1956, and at the same time higher wage rates and norms were introduced in state agriculture. A new system of paying state farm managers was put into effect on 1 January 1957. During the third quarter of 1956, wage reform was carried out experimentally in 14 selected machine building plants and is to be extended to the rest of the industry during 1957. In October and November the reform was started in the Donets Basin (Donbas) coal mines. Toward the end of 1956 a new wage system was installed experimentally in selected enterprises in ferrous and non-ferrous metallurgy. Finally, much of the preparatory work has been completed in the radio technical, automobile, petroleum, chemical, and timber industries. Once the basic decisions have been made for these and other industries, the wage reform is to be carried out enterprise by enterprise and will probably be completed by 1960. The changes are scheduled to be completed in 1957 in the cement, machine building, coal, and metallurgical industries.

The average wage (including premiums and bonuses) of workers and employees in the USSR, currently estimated at about 700 rubles per month, will undoubtedly rise as a result of the current wage reform. The initial results of the wage and norm changes in several industries confirm this judgment, and also there are indications that additional sums are being provided in the state budget to finance the higher minimum wage and the wage reform in some sectors. As a result, the 30-percent rise in real wages scheduled for 1956-60 will be achieved primarily through a rise in money wages rather than through consumer price reductions as in the recent past. Because of contradictory objectives, the probable effect of the wage reform on earnings differentials is difficult to assess, but, on balance, industrial and occupational wage differences will probably increase.

When the wage reform has been completed in most of Soviet industry, the level of work norms will be considerably higher, and the whole system

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of norms will be more meaningful. Simultaneously with the introduction of new wages and norms plant by plant, various measures are being undertaken to mechanize production operations and to bring about more efficient organization of plant operations. These rationalization measures, combined with new economic incentives directly related to individual and plant efficiency, should contribute materially to increased labor productivity. In general, preliminary results of the innovations in coal, construction, state agriculture, and machine building indicate such a result. If productivity gains exceed the rise in earnings to a greater degree than before, unit labor costs will fall concomitantly, even though total wage costs will be higher. The wage reform program would then contribute significantly to the success of the current drive for rationalization and efficiency throughout Soviet industry.

The execution of a wage reform on the scale currently being carried out in the USSR is an exceedingly complex and delicate task. Of necessity the government has had to proceed cautiously in order to minimize the danger that hasty and ill-considered actions or miscalculations may alter the price-cost structure, upset the planned balance of consumer income and expenditures, or create worker unrest. During the difficult process of establishing the wage reform, some adverse reaction on the part of workers is to be expected. Several instances of concerted worker protests against the new wages and norms occurred toward the end of 1956 in several Moscow plants, including a reported strike at the important Kaganovich Ball Bearing Plant. Such difficulties and unfavorable worker reaction are believed to be transitory, however. If the government can provide goods and services sufficient to absorb the newly created purchasing power, the average Soviet worker will be better off under the new wage system.

I. Introduction.

Wages in the USSR are fixed by the state in such a way as to further predetermined policy objectives and are paid from funds allocated through the state budget in accordance with national economic plans. The total wage fund for any year is the composite of the funds allocated to each enterprise and institution on the basis of the established wage rates,

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salaries, and bonus systems and of the planned number and kinds of employees. Because wages are a cost of production to the state, the factors determining their magnitude have a decisive influence on cost and price levels. Wages, however, also represent the income of persons employed in the state sector of the economy, and, therefore, wage determinants have an even more decisive influence on purchasing power and consumption levels.

In a free market economy, broadly speaking, wages are determined like other prices by the interaction of demand and supply. Wage differences tend to approximate productivity differences, and workers tend to distribute themselves among industries and occupations in response to differences in monetary remuneration. These general tendencies characteristic of capitalist labor markets also are operative in the Soviet economy, the principal difference being that in the USSR the government is the sole employer of labor. This monopolistic employer, in pursuing the goals set in the national economic plans, strives to maximize output, minimize monetary costs, and fully utilize available manpower. Even though Soviet production goals may be different from those of a capitalist economy, it is nevertheless to the interest of the state to relate wages to productivity and to fix wage differentials that will attract labor to the desired occupations, industries, and geographic areas. The wage structure must also be adjusted to the output of consumption goods. Although fiscal measures are flexible enough to accomplish this, their use in such a manner may act as a drag to incentive in production.

After an initial experiment with "equalitarianism" as a principle in wage fixing, the USSR adopted a policy of providing differentiated monetary incentives in order to obtain maximum output from each worker and to induce workers to acquire skills and to move into the industries and areas required by the planned goals for production. In the hope of maximizing individual output, the government pays most workers under the piece-rate system, which relates earnings directly to output: Higher wages are paid for work in disagreeable climates; for jobs that require skill; and for unpleasant and difficult jobs in essential industries, such as coal mining, which workers would otherwise shun. Likewise, wages are adjusted from time to time to attract labor to industries which are given priority at any given time.

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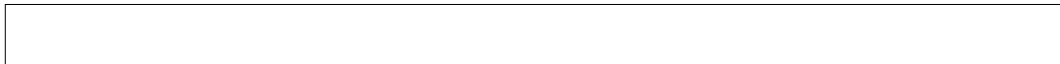
The Sixth Five Year Plan in the USSR sets ambitious production targets, which, in view of the smaller increments to the labor force expected during the Plan period, depend in large part for their success on increased output per worker. Recognizing this, the USSR has embarked on a major campaign to improve industrial labor productivity. An important part of this campaign is the decision to overhaul the wage system and to strengthen its incentive features by relating individual earnings more closely to quantity and quality of output. The development programs outlined in the Sixth Five Year Plan likewise require a major redeployment of the labor force. Avoiding the use of coercion, the government has decided to obtain the desired allocation of workers through provision of suitable economic incentives, thus necessitating a major readjustment of the wage structure. The execution of the contemplated wage reform is an exceedingly complex and delicate task. Of necessity the government is proceeding slowly and cautiously lest it frustrate its objectives by incurring the ill will of the workers, which could arise from hasty actions that create inequities or reduce earnings.

II. Nature of the Soviet Wage System.

Forms of employee compensation in the USSR do not differ essentially from those used in capitalist economies. Workers are paid for their labor either on the basis of units of time spent (timework) or units of output (incentive work, or piecework). The latter form is more common, for in 1956 more than three-fourths of all workers in Soviet industry were on piecework. 1/* In addition to basic time and piece wages, workers also are paid various kinds of premiums and bonuses.

A. Wage Scales and Rates.

In general, the basic determinant of a Soviet worker's wage is the labor grade into which his job is classified and the rate fixed for that grade. The jobs within a given branch of industry are grouped into labor grades on the basis of standard job description manuals (tarifno-kvalifikatsionnyy spravochnik) issued by the responsible ministry. Usually there are 7 or 8 such grades, although there may be as few as 4



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or as many as 14. For each grade a numerical coefficient is fixed so as to reflect varying levels of job difficulty and skill. The coefficient for labor grade 1 is always 1.0, and that for the highest grade usually falls within a range of 2.0 to 3.5. The labor grade structure with corresponding coefficients is called the wage scale (tarifnaya setka).

An hourly rate in rubles is fixed for labor grade 1, and the rates for the other grades are obtained by multiplying this rate by the corresponding labor grade coefficients. The labor grade rate, expressed in rubles per hour or per day, is called the wage rate (tarifnaya stavka). For each wage scale, separate sets of rates are set for timework and for incentive work. Rates applicable to incentive work are often called base rates. As an illustration, a wage scale and rates for the chemical industry are as follows 2/:

	<u>Labor Grade</u>						
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>
Coefficient	1.0	1.12	1.27	1.44	1.62	1.92	2.29
Rates for timeworkers (rubles per hour)	1.22	1.36	1.53	1.73	1.97	2.26	2.74
Rates for incentive workers (rubles per hour)	1.33	1.49	1.69	1.92	2.15	2.55	3.05

Within a given industry there are usually a number of additional sets of rates, reflecting differences in such factors as size of plant; geographic area; job conditions (for example, hot work or cold work in metalworking); and type of enterprise (for example, basic or subsidiary). The rates are established by the economic ministries in accordance with over-all government policies. Within a given industry, favorable rate differentials are usually established for incentive work, for work under difficult or unpleasant conditions, for work in remote areas, and for work in large or important enterprises. Wage rates also vary widely among industries.

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B. Piece Rates and Norms.

All jobs in the USSR for which standards of output can be established are paid for on the basis of piece rates. For each such job a work norm, sometimes called an output or production norm (norma vyrabotki), is determined; the norm represents the number of units of output that the worker is expected to produce in 1 hour or 1 day under normal working conditions. Work norms are of two kinds: experimental-statistical (opytno-statisticheskiye normy), and technical (tekhnicheskkiye normy). The former reflects what the average worker has actually done in the past, as shown by historical records, whereas the latter reflects what a worker midway between average and best might reasonably be expected to do in the future as demonstrated by time studies carried on under specified technological conditions. Increasing the relative number of technical norms has been a continuing major objective of Soviet wage policy, because norms based on time studies are the only real standards for measuring the performance potential for a given job. Norms may apply to the expected performance of a single worker or to the performance of a team or brigade.

After the norm for a given job is set, the piece rate for the job is determined by dividing the norm, which is expressed in units per hour or per day, into the appropriate wage rate (base rate) for the labor grade in which the job is classified. For example, if the norm for a milling machine operator is 10 units or pieces per hour and the applicable rate is 2 rubles per hour, then the piece rate is one-half ruble. Thus if the worker fulfills his norm, he is paid the wage rate for his labor grade. His earnings increase correspondingly with each additional piece that he produces. This method of piecework payment is called the straight piece-rate system (pryamaya sdel'naya sistema).

Pieceworkers may also be paid in accordance with the progressive piece-rate system (sdel'no-progressivnaya sistema). Under this method the worker receives the regular straight piece rate for fulfilling his norm, but for above-norm output his piece rate is increased by percentages which increase with output. Two examples of progressive piece-rate scales are as follows 3/:

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<u>Machine Building</u>		<u>Ferrous Metallurgy</u>	
<u>Percent of Output Above the Norm</u>	<u>Percent Increase in Piece Rate</u>	<u>Percent of Output Above the Norm</u>	<u>Percent Increase in Piece Rate</u>
1 to 10	30	0.1 to 5	50
10 to 25	50	5.1 to 10	100
25 to 40	75	10.1 and over	200
40 and over	100		

This method of wage payment is used primarily in heavy industry, particularly in those branches to which the government assigns priority. In the coal industry, for example, 46 percent of all production workers were paid on the basis of progressive piece rates in 1956. 4/

C. Time Rates and Bonuses.

As indicated above, flat hourly or daily rates based on the applicable wage scale are paid in the USSR to production and service workers whose jobs do not permit the establishment of norms (for example, janitors, storekeepers, guards, and electrical maintenance men). Managerial and engineering-technical employees are paid on the basis of a formal salary system (sistema dolzhnostnykh okladov). Under this system, monthly salaries are set in accordance with standard position lists (tables of organization) established by the appropriate ministry and approved by the State Table of Organizations Commission, attached to the Ministry of Finance. Like the wage rates described above, these salary scales differ widely with industry, occupation, and area. The table of organization approved for each enterprise or institution usually provides a minimum and maximum rate for each salaried position, and the enterprise director is permitted to fix the salaries of individual employees within this range based on merit. Persons having special qualifications or experience may be paid "personal salaries" in excess of the regular salaries fixed for their jobs; such payments require specific sanction from the appropriate ministry or council of ministers of the union-republic. 5/

In addition to basic wages or salaries, employees paid by the hour, day, or month receive bonuses for fulfillment and overfulfillment of the monthly production plans for their shop or plant. For managerial and engineering-technical employees, these bonuses are contingent upon

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simultaneous fulfillment of the plant's plan for the reduction of product cost. The monthly bonus for individual employees in the machine building, coal, and metallurgical industries may not exceed 2 months' salary; and in other industries the bonus may not exceed $1\frac{1}{2}$ months' salary. 6/ For the purpose of illustration, the bonus system in effect for administrative-technical employees in the paper industry is as follows 7/:

<u>Category of Employee</u>	<u>Percentage Bonus for Plan Fulfillment</u>	<u>Percentage Bonus for Each Percentage of Plan Overfulfillment</u>
Plant director and chief engineers	50	10
Shop and section chiefs	40	6
Technical and clerical employees	30	3

Additional bonuses, which differ widely with industry and plant, are also paid for above-plan cost reduction, improvements in product quality, reduction in the rate of product rejects, reduction in the amount of machine idling, and above-plan economies in fuel and raw materials. 8/

D. Premiums and Other Compensation.

Wage and salary earners in the USSR may receive various kinds of premiums from time to time for meritorious performance. These premiums may be paid from the "enterprise fund,"* a fund derived from the profits of the enterprise and made available to the enterprise director for specified purposes, including the payment of premiums to workers. 9/ Other sources of funds for the payment of premiums are the appropriate minister's fund and sums provided by special order of the Council of Ministers in recognition of outstanding plant performance. Enterprises declared the winners in socialist competition are awarded substantial prizes, which are distributed to employees in accordance with ministerial regulations.

* See p. 31, below.

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In some branches of industry, percentage additions to basic wages and salaries are paid to employees with specified amounts of continuous service in the industry. Such an addition may be paid either in the form of an annual bonus or as a monthly supplement to the basic wage or salary. Extra longevity compensation amounting to 10 percent for each 6 months of service is also given to persons who are assigned or who volunteer to work in designated remote areas for a minimum of 3 years 10/; the total of such surrates, however, may not exceed the employee's regular wage rate or salary.* Finally, employees receive extra compensation for overtime, night work, training new employees, inventions and improvements, and other activities for which compensation is not provided in the basic wage and salary scales.

III. Defects of the Existing Wage and Salary System.

Generally speaking, the basic characteristics of the present Soviet wage and salary system were established in 1931 and 1932 as a result of the major wage reform undertaken in response to directives laid down by Stalin in a speech of 23 June 1931. In this speech he severely criticized the "equalitarian" nature of the then-existing wage system, holding it largely responsible for widespread and excessively high labor turnover, and called for the "destruction" of the old system. 12/ During the next several years the entire wage structure was revised, new wage scales were established to provide greater wage differentials between skilled and unskilled jobs, wage and salary rates were changed, and formal job classification manuals were prepared for all industries. During the 25 or more years since this reform the Soviet wage system has simply grown without plan or coordination as a result of numerous decrees of the Council of Ministers and a multiplicity of actions by individual ministries and enterprises. Relatively little effort was made to establish guiding principles or to coordinate in detail the actions and policies of the various ministries. 13/ From the demise of the Commissariat for Labor in 1933 until the establishment of the

* Persons migrating to designated remote areas also receive lump-sum grants upon signing work contracts ranging from 150 to 1,000 rubles, loan privileges, per diem and travel allowances, and extra vacation time. In addition, each year of service in these areas is counted as 2 years for purposes of meeting the length-of-service requirements under the state pension system. 11/

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State Committee on Labor and Wages (Gosudarstvennyy Komitet Soveta Ministrov SSSR po Voprosam Truda i Zarabotnoy Platy) in 1955, there was no central agency with primary responsibility for day-to-day coordination and review of ministerial actions in the field of wages and labor.*

A number of fundamental defects in the employee compensation system have developed over the years, partly as a result of this lack of coordination and partly as a result of inadequate efforts to keep the system abreast of far-reaching changes in production, income, and technology. Although these shortcomings have been pointed out by Soviet writers for a number of years, 14/ discussion of them has become commonplace following Premier Bulganin's speech to the Plenum of the Central Committee of the Communist Party in July 1955. 15/

A. Obsolete Base Rates and Norms.

Average money earnings of Soviet workers and employees** have more than doubled since 1940, but the average level of wage rates has increased only slightly. 17/ As a result of this difference in rates of increase, the relative share of wage (base) rates in workers' total earnings has decreased markedly, so that at present the base wage forms only about half of a worker's earnings, on the average, 18/ compared with 75 to 80 percent in prewar years. 19/ The remainder of workers' earnings consists of payments for overfulfillment of norms and various kinds of premiums for performance not directly related to the worker's own quantity of output.

In the individual enterprise, this discrepancy between wage rates and average earnings was reflected in a similar discrepancy between the planned average wage, which has tended to rise slowly, and the average base rates, which have remained fairly stable. The rising trend in earnings was the composite result of many factors, probably the most important being the increasing rate of overfulfillment of norms by

* Annual plans fixing the size and distribution of wage funds and allocating manpower were coordinated by the State Planning Commission, which had a section for labor and wages.

** the average base rate was about 400 rubles per month in 1953 and that the average earnings of wage earners were about 650 rubles. 16/ According to this estimate, base rates would represent about 62 percent of total earnings.

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pieceworkers and the institution of various kinds of premiums for timeworkers, so as to keep their earnings in line with those of pieceworkers. Not being willing to upset the whole system of basic wage scales, the government has tacitly sanctioned these developments in the interests of peaceful industrial relations. In this way the enterprises were enabled to bridge the gap between the wage contemplated by the established wage scales and regulations and the wage which the worker had to have to live and which the enterprise had to pay to retain its labor force under conditions of full employment and acute shortages of skilled workers.

The relative stability of base rates in the face of a rising average wage (money earnings) has acted as a brake on the establishment of work norms which fully reflect the output possible under existing technological conditions. In other words, work norms have been usually set so low that the workers could easily overfulfill them by substantial margins. The director of the Grinding Machine Plant in Moscow, a large and important machine building plant, explained how this situation arises. In his plant the average planned monthly wage (which is based on the previous year's average wage and average percentage of norm fulfillment) was 880 rubles, and the average base wage was 413 rubles. In order to earn the planned average wage, pieceworkers would have to fulfill their norms by about 150 percent, and, therefore, the vast majority of work norms were deliberately fixed to make this possible. Although about 300,000 norms were used in the plant, only about one-eighth of them were based on time studies. 20/

These wage- and norm-fixing practices in the enterprises mean, as Bulganin has pointed out, that wages determine the norms instead of norms determining the wages. 21/ Under such methods of norm fixing the norm ceases to be a true output standard -- that is, a measure of what the average worker should be able to produce in a given time under given job conditions. The average worker need make no particular effort to fulfill such norms, and incentive to increase productivity was lessened in consequence.

Figures from Soviet sources indicate that the wage and norm conditions described above for the Grinding Machine Plant in Moscow are quite common throughout industry, particularly heavy industry. Norms usually were not based on time studies. Thus in 1955, technically based norms comprised only 21 percent of all norms in the Ministry of

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the Petroleum Industry, 23.5 percent in the Ministry of Geology and Mineral Conservation, 22/ 18.2 percent in the Ministry of General Machine Building, 19.7 percent in the Ministry of Machine Tools, and 27.1 percent in the Ministry of Machine and Instruments Building. 23/ In contrast, the proportion was 56.7 percent in the chemical industry and 78.6 percent in the paper and woodworking industry. 24/ Norms are overfulfilled by wide margins. Thus in recent years the average percentage of norm fulfillment by pieceworkers was about 180 at the Kuybyshev Locomotive Plant in Moscow, 25/ 172 at the Nevskiy Machine Building Plant in Leningrad, 26/ and 191 at the Compressor Plant in Moscow. 27/ During 1954-55, norms were fulfilled 160 to 180 percent in machine building, 135 percent in metallurgy, and more than 140 percent in the chemical industry. 28/ These high rates of norm fulfillment, to which workers become accustomed, act as a deterrent to the establishment of technically based (higher) work norms because, with the existing low base rates, workers' earnings would fall if norms were raised substantially.

Until 1957, work norms were supposed to be reviewed annually throughout industry.* The scheduled annual review of output norms in the enterprises, however, seems to have produced little increase in the relative importance of technical norms, in spite of perennial government pressure toward that end. 29/ Even with respect to experimental-statistical norms, the norm reviews seem to have been largely ineffective in increasing the relative number of realistic norms. Although these reviews were supposed to result in significantly higher norms, workers seem to have met the new norms with remarkable ease. Thus in the Ministry of Shipbuilding, norms were fulfilled by 163 percent in a typical month in 1955 before the annual norm review and by 165 percent in a month shortly following the review. 30/ Corresponding percentage figures for the Ministry of Tractor and Agricultural Machine Building are 174 and 177; for the Ministry of Machine and Instruments Building, 185 and 186; and for the Ministry of the Paper and Wood Processing Industry, 140 and 141.

These figures suggest that the enterprises, in spite of official proscriptions, have resorted to widespread manipulation of norms so as to insure that workers' earnings do not fall. Under the characteristically

* By decree of the Council of Ministers of the USSR, a new procedure for reviewing work norms became effective on 1 January 1957. See p. 32-34, below.

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uncertain conditions of planning and raw materials supply prevailing under the Soviet system, such manipulation has apparently provided a needed element of flexibility for the enterprises in their efforts to fulfill production plans with a minimum of worker discontent.

B. Excess Complexity and Irrationality of the Wage System.

The growth of the Soviet wage system over the past 25 years has resulted in an extremely complicated wage structure, with wide diversity in wage practices among the ministries and even within a single ministry. Before the wage reform in 1956 the construction industry had 320 different wage scales, 150,000 norms with norm reference books amounting to about 30,000 pages, and nearly 80 different kinds of correction factors to be used in computing piece rates in certain areas. 31/ In 1955 there were 170 labor grade schedules in the iron and steel industry, 140 in the chemical industry, 140 to 160 in the various branches of the machine building industry, and more than 200 in the building materials industry. 32/ The 24 industrial ministries as a whole used more than 1,900 wage schedules and over 2,000 base rates. 33/ Similar multiplicity of rates prevailed even within a single enterprise -- the Metallurgical Combine in Leninogorsk, for example, had 36 different base rates for the first labor grade. 34/

Numerous job classification manuals, most of which are obsolete, are used in determining workers' labor grades. Before 1956 the construction industry, for example, used two such manuals, one adopted in 1939 and the other in 1944. 35/ In many instances the same job was classified in different grades in the two manuals, and many new job classifications, resulting from technological changes in the industry, were not listed. Manuals applicable to the machine tool, chemical, and ferrous metallurgy industries had not been revised since 1948. 36/ Until recently, no attempt was made to coordinate the work of job evaluation among the ministries, with the result that a variety of criteria were applied and the same job frequently was evaluated and classified differently by different ministries. Furthermore, the low level of base rates caused the enterprises to upgrade jobs as a means of raising wages, particularly for timeworkers. The lowest 2 or 3 labor grades therefore were seldom used, and jobs frequently were placed in higher grades than provided in the manuals. 37/

The greatest complexity prevailed in progressive piecework systems and in the methods and scales used to determine bonuses and premiums. In 1955, more than 20 different scales of progressive piece

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rates were used in the machine building industries, more than 35 in the consumer goods industries, and more than 25 in the construction materials industry. 38/ Progressive payments were used in many cases merely as a device for increasing wages, a perversion of their original mission of stimulating output of high-priority products. 39/ In some industries, notably coal and textile, progressive payments began with 80 to 90 percent of norm fulfillment. Scales were often excessively steep and were graded much more finely than necessary. The system of bonuses for fulfilling various planned tasks had become quite chaotic. A number of different kinds of bonuses applied in each industry, and often several were used simultaneously to fix the total compensation for a given job. Like progressive piece rates, bonuses sometimes were paid without rational basis. It is reported, for example, that a plant spent over 2 million rubles in bonuses to workers for reducing the spoilage of raw materials valued at 60,000 rubles. 40/ In the ferrous metallurgy industry, group bonuses were paid when the production plan was fulfilled by only 90 percent. In the textile industry, assistant foremen received bonuses based on the extent to which shop workers fulfilled their norms -- hence foremen had a vested interest in keeping norms low.

The complexities of the wage system made it difficult for the average worker to understand, with the result that the system failed to exert maximum pressure on productivity. In addition, the multiplicity of wage rates and methods of wage determination complicated wage accounting, with an attendant increase in administrative expenses and personnel.

C. Improper Wage Differentials.

According to Soviet sources, a major shortcoming of the present wage structure was the existence of improper and inequitable regional and occupational wage differentials. To highlight this situation, Bulganin, in his speech to the Party Plenum in July 1955, cited the case of a worker who was paid a monthly wage of 1,500 rubles for a given job in Barnaul, 700 rubles in Khar'kov, and 1,800 rubles in Minsk. 41/ In his speech to the XXth Party Congress, Khrushchev asserted that wages were too low for some workers and "quite unjustifiably high" for others. 42/

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Soviet economists maintain that the wage structure had become compressed to such an extent that the wage differentials between skilled and unskilled jobs were too narrow. This compression was manifested particularly in the large number of wage scales in various industries, where the small pay differences from grade to grade allegedly dampened the worker's incentive to improve his qualifications in order to be promoted. The compression of the wage schedules was caused in large part by the incorporation into the base rates of the substantial increase in wages for low-paid workers resulting from a government decree of 16 September 1946 (the so-called "bread-price compensation"). ^{43/} Thus before 1946 the relationship between the lowest and the highest labor grade in the base pay schedule for the petroleum industry was 1 to 3.6, and in 1956 it was 1 to 2.7. ^{44/} Although some industries had corrected this situation since 1946, most have not yet done so. The adjustment in wages for low-paid workers likewise substantially reduced differentials between base pay rates of timeworkers and pieceworkers, as well as the pay differentials between those engaged on hot work and those engaged on cold work in heavy industry.

Incorrect occupational wage differences also sprang from other sources. Norms for the same job were set differently between one enterprise and another, even in the same industry and area. As noted earlier, the same job often was rated differently in the various job classification manuals in use. Moreover, since adherence to these manuals was not mandatory for the enterprises, they sometimes took diverse action with respect to job slotting. In scientific and educational fields, unwarranted differences in earnings existed between scientists in the universities and institutes and those engaged on scientific work in the enterprises because salaries of scientists depended mainly on the number and kinds of degrees held, ^{45/} with little regard to the kind of work done. In the cement, rubber, slate, and other industries, many enterprises paid the same rates for light work as for heavy work. ^{46/} About one-third of all industrial enterprises, presumably those subordinated to republic ministries, did not have official salary scales fixed centrally and applicable to groups of similar enterprises; instead, salaries were fixed individually for each enterprise, and great diversities prevailed. ^{47/}

Wage differentials between geographic regions allegedly have become distorted, largely because of lack of coordination in the wage-setting activities of the various ministries. Although a

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20-percent wage differential was established by government decree in 1946 for basic enterprises in heavy industry in the Urals, Siberia, and the Far East, this difference has now virtually disappeared in the machine building industry, because of methods of wage fixing. Up to 1956, no regional (zonal) wage differentials were provided in the wage schedules of the machine building, chemical, and paper industries. In the coal and timber industries there were 2 wage rate zones, and for cotton textile factories there were as many as 30 zones within a single economic region. 48/

D. Inadequate Incentives.

Soviet spokesmen have maintained that the present system of employee compensation failed to provide workers and managers with adequate economic incentive to increase individual and enterprise productivity. This deficiency allegedly stems from a number of different aspects of the existing system, some of which have been mentioned above. The wide prevalence of unjustifiably low norms and their consequent overfulfillment by substantial margins meant that workers needed to make little effort to fulfill them. Such norms were called "ceiling norms" by the workers. 49/ Plant managers have testified that when norms could be so easily fulfilled, workers had little incentive to avoid waste motion or to devise ways of getting things done more quickly and efficiently. 50/ The existence of unduly small wage differentials between labor grades and the relatively low ratio of base rates to total earnings, moreover, dampened the worker's incentive to improve his educational and skill qualifications in order to advance to higher grades. The arbitrary upgrading of jobs and the accompanying nonuse of the lowest several labor grades further reduced the significance of the labor grade system. Finally, the bonus systems used to remunerate timeworkers were usually related only to plan fulfillment for an individual section or shop, and consequently the workers had no direct interest in what happened to the plant as a whole. 51/

Soviet economists have been particularly critical of the system of awarding bonuses to engineering-technical and managerial personnel in the enterprises. These bonuses, computed in accordance with a 1946 decree, have been paid for fulfillment or overfulfillment of the enterprise production plan, contingent upon simultaneous fulfillment of the plan for reducing product costs. Above-plan cost reductions did not

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affect the amount of these bonuses, nor was the amount affected by the plant's performance with respect to such other efficiency indexes as the plans for improvements in product quality, for increased labor productivity, and for the introduction of new technology. Hence enterprise managers often had striven for fulfillment and overfulfillment of the production plan without sufficient regard for plant efficiency. Because his personal income was not greatly affected, the enterprise director had little incentive to strive for economies in manpower, wages, materials, and fuel above the minimum called for by the plan. To illustrate these points, one writer cited the case of a railroad foreman in charge of locomotive repair who received a bonus of 5,000 rubles for 2 consecutive months, in spite of the fact that the same job, that of repairing a locomotive, required 477 manhours in one month and 360 in the other. 52/ Often substantial monthly bonuses were paid to managerial personnel even though they had permitted large overexpenditures of planned wage funds during these months. 53/

IV. Current Wage Reform.

In 1955 the USSR embarked on a large-scale project to revise its entire system of employee compensation, the first over-all reappraisal introducing a major wage reform since 1932. To direct and coordinate this mammoth undertaking, the Council of Ministers established in May 1955 the State Committee on Labor and Wages,* chaired by L.M. Kaganovich until June 1956, when he was succeeded by A.P. Volkov. The projected reform proceeded quite slowly until the latter part of 1956, when the pace was stepped up considerably.

A. Objectives.

The Sixth Five Year Plan in the USSR calls for substantial increases in industrial labor productivity -- 50 percent in industry and 52 percent in construction. Attainment of these goals will be an important determinant of success in meeting total output targets because 85 percent of the scheduled rise in total industrial output is to come from increases in output per worker. Although most of the achieved gain in labor productivity undoubtedly will result from the introduction

* The establishment of the State Committee on Labor and Wages actually amounts to the restoration of a Ministry of Labor in the USSR because the Committee's functions extend far beyond the coordination and direction of the current wage reform. 54/

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of new and better machinery, the government is also attacking the productivity problem in other ways. One of the most important of these measures is the scheduled rationalization of the wage and salary system, which is directed toward providing workers and managers with greater material incentive to increase output and reduce production costs.

Broadly speaking, the current wage and salary reform is designed to overcome the defects in the present system outlined above. The specific objectives are set forth in the directives for the Sixth Five Year Plan as follows: (1) to ensure the widespread introduction of technically based work norms "corresponding to the modern level of technology and organization of production"; (2) to raise the proportion of base rates in workers' total earnings and to establish "proper" wage relationships between industries and areas; (3) to abolish the "multiplicity of systems" and to correct "disparities" in the methods of remunerating engineering-technical and other salaried employees; and (4) to "enhance the role of bonuses to stimulate new technical innovations, higher labor productivity and reduction of production costs." 55/ In addition, a separate project was scheduled with the objective of raising the wages of low-paid workers in advance of completion of the wage reform. This project was announced by Khrushchev in his speech to the XXth Party Congress, in which he also hinted that there might be accompanying reductions in the "unjustifiably high" salaries of "a category of workers -- granted not a big one." 56/

Another goal to be accomplished by the wage reform is the establishment of levels and conditions of pay that will contribute to a reduction in the high labor turnover characteristic of Soviet industry in recent years* and will facilitate the regional and industrial distribution of labor required by the large-scale regional development plans scheduled for 1956-60. Finally, it is intended that the contemplated changes in base rates, norms, and bonus systems will help to alleviate the chronic problem of overexpenditure of wage funds.

* In his speech to the Party Plenum in July 1955, Bulganin stated that "in 1954 at enterprises of All-Union and union-republic industrial ministries alone, and not counting timber-cutting enterprises, 2,923,000 workers were engaged [hired] while the number of workers that left was 2,802,000." 57/ The total number of workers and employees in industry was 17 million, 58/ and the labor turnover rate for 1954 was about 33 percent. The labor turnover rate in the construction industry during the same year was nearly double that for industry as a whole.

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B. Establishment of Higher Minimum Wages.

As an interim measure benefiting low-paid workers, the Soviet government on 8 September 1956 issued a decree establishing legal minimum wages* to be applicable throughout the state sector and to take effect on 1 January 1957. 60/ The decree provides the following: (1) a basic minimum wage of 300 rubles per month for all workers and employees** in towns and workers' settlements; (2) a basic minimum wage of 270 rubles per month for workers and employees in rural areas; and (3) minimum wages not to be less than 300 rubles or more than 350 rubles per month to be set separately for each industry and to be applicable only to workers and employees (excluding junior service staffs and security personnel) in industry, construction, transport, and communications. These higher rates are to be fixed by the various ministries in collaboration with the All-Union Central Council of Trade Unions and the State Committee on Labor and Wages. The increase provided by the decree affects only the base rates or salaries. Bonuses for fulfillment and overfulfillment of norms and plans, as well as all other bonuses and premium payments for overtime, night shift work, length of service; and service in remote areas, are to be computed on the basis of the old base rates and salaries, presumably to minimize the cost of the minimum wage adjustment and to ensure that it will not complicate unnecessarily the broader task of revising base rates and norms.

According to the text of the decree, the minimum wage adjustments will add 8 billion rubles to the total wage bill in 1957 and will raise the average wage of the employees directly affected about 33 percent. It is estimated that about 8 million workers and employees (one-sixth of the total) will benefit immediately. Whether these benefits will be permanent depends on the final outcome of the over-all revision of wages and norms.

* As far as can be determined, the last decree before this one which provided for a national minimum wage was adopted on 1 November 1937. This decree fixed a monthly minimum wage of 110 rubles for pieceworkers and 115 rubles for timeworkers in industry, railroads, and water transport. 59/ The "bread-price compensation" decree of 16 September 1946 provided for an increase of 110 rubles in all monthly wages below 300 rubles. Thus it appears that the legal minimum wages in effect before 1 January 1957 were 220 or 225 rubles, at least for industry and part of transportation.

** Workers and employees is a technical term used by the Soviet government. It includes all wage and salary earners except those employed on collective farms, members of the armed forces, workers in forced labor camps, and independent artisans.

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C. Progress of the Wage Reform in Specific Industries.

With the State Committee on Labor and Wages acting as supervisor and coordinator, the details of the wage reform in the USSR are being worked out industry by industry by the respective ministries and enterprises. The reform has already been completed in construction and partly completed in state agriculture. In machine building, ferrous and nonferrous metallurgy, and coal, new wages and norms have been put into effect in selected enterprises on an experimental basis. In other industries the details of the planned reforms are still being worked out.

1. Construction.

On 23 August 1955 the Council of Ministers of the USSR issued a decree providing for a sweeping reform of wages and norms throughout the entire construction industry, effective 1 January 1956. 61/ The decree established uniform and obligatory wage-fixing procedures for the construction projects of all ministries and departments as follows: norms and piece rates, a job-rating manual, a 7-grade wage scale, a scale of progressive piece rates, and a bonus system for timeworkers. Under the terms of this decree, work norms were increased an average of 17 percent for mechanized construction operations and 9.5 percent for installation operations but were decreased 11.2 percent for hand operations. 62/ The new job-rating manual provides, among other things, for a substantial upgrading of such basic skilled occupations as plasterer, bricklayer, painter, and carpenter, which have been assigned the highest labor grade.

The new 7-grade wage scale, with coefficients ranging from 1.0 for grade 1 to 2.8 for grade 7, replaced the 300 scales formerly in use, the lowest of such scales having had a range of 1.0 to 2.38 and the highest a range of 1.0 to 2.8. Four separate sets of labor grade rates are established by the new decree -- for Group I construction projects, Group II construction projects,* construction workers, and metalworkers and equipment-installers. A new uniform progressive piece-rate scale provides a piece-rate increase of 50 percent for overfulfillment of norms

* Group I includes projects of most of the construction ministries and the Ministries of Machine Building, the Chemical Industry, the Coal Industry, the Petroleum Industry, Ferrous Metallurgy, Nonferrous Metallurgy, Electric Power Stations, Shipbuilding, Aviation Industry, Defense, Internal Affairs, and certain other designated organizations. Group II includes all other projects.

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by 20 percent or less and an increase of 100 percent for overfulfillment by more than 20 percent. Finally, a uniform set of geographic wage differentials is provided through the establishment of four regional wage-rate zones,* with the highest differential (40 percent) being provided for such areas as Primorskiy Kray, Amurskaya Oblast, Khabarovskiy Kray, and Magadanskaya Oblast (south of the Arctic circle). In addition, a differential of 100 percent is fixed for Sakhalin and Kamchatka and 150 percent for the Kurile Islands. Finally, the new procedures extend to construction workers the provisions respecting travel expenses, overtime pay, and pay for work on days off that are applicable to other workers in the USSR.

The new wage structure has been in effect for more than a year, but little evidence is as yet available on which to appraise its effects on productivity and average wages. Certainly the new system is more rational and simple than that which it replaced. Although the construction industry as a whole achieved the planned increase of 10 percent in labor productivity, a similar goal was also met in 1955. 63/ The over-all contribution of the new wage system to improved labor productivity in 1956 therefore remains obscure. The average output per worker in construction enterprises subordinate to the Chief Directorate of the Moscow Oblast Construction Industry (Glavmosstroy), however, was 18 percent higher during the first quarter of 1956, in spite of bad weather, than in the corresponding quarter of 1955. 64/

With respect to the effect on average wages, it is probable that the new wage rates and procedures, in spite of the accompanying increased work norms, resulted in an increased average wage for construction workers. Although the net effect of the higher norms and base rates cannot be judged, it seems clear that the uniform labor grade system and zonal adjustment factors will increase the wage level. In addition, there is evidence that the new wages and norms have substantially raised average wage levels on some construction projects in the Far East. 65/ The average wage for the construction industry in Moscow Oblast during the first quarter of 1956 was 10 percent above that for the first quarter of 1955, while the wages of "many workers" increased 15 to 20 percent during this period. 66/ The head of the labor

* Zone I includes the European USSR (except the extreme north); Zone II includes the Urals area, most of West Siberia, and parts of East Siberia and Central Asia; Zone III includes part of Central Asia and West Siberia, most of East Siberia except Yakutsk, and the extreme northern part of the European USSR; Zone IV includes the Far East and Yakutsk.

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and wages section of Glavmosstroy attributed the increases in wages, as well as the rise in labor productivity, to the new wage structure introduced in January 1956.

Finally, the Ministry of City and Rural Construction, USSR, reported that in those trusts where "serious attention" was given to the transfer to the new wage conditions the preliminary results have been highly favorable. In three trusts cited as examples, labor productivity during the first quarter of 1956 rose by 22.2 percent, 17.2 percent, and 83.2 percent, respectively, compared with the same period in 1955. Corresponding percentage increases in wages were 0.5, 9.4, and 35.5. 67/ Results were less satisfactory in other trusts, where the new wage procedures allegedly were introduced incorrectly.

2. State Agriculture.

Beginning in 1956, higher wage rates and norms were put into effect on state farms in the USSR as part of the program of the Ministry of State Farms to increase output per worker. 68/ Under the new rates the monthly base wages of state farm workers will increase by an average of 52 rubles. At the same time, work norms were also raised considerably -- for example, they rose 13.4 percent for milking cows, 25.7 percent for swine breeding, and 16.5 percent for sheep breeding. The wage system was also simplified by reducing the number of methods used for computing wage payments for above-plan performance.

On 1 January 1957 a new system of paying managers and specialists on state farms was introduced, ostensibly to relate the income of these officials more directly to the economic effectiveness of their farms' operations. 69/ Under the old system the salary of a state farm director depended primarily on the physical size of the farm and the number of livestock, but under the new system the director's salary will depend to an important extent on the farm's net income. The officials are to be guaranteed 70 percent of their monthly pay, but the rest is to be withheld until the results of the farm's operations for the month are known. If the production plan is not fulfilled, appropriate deductions will be made from the portion of wages withheld, and if the plan is overfulfilled the director and other officials will be paid a bonus of 20 percent for each percentage of overfulfillment. Finally, 12 percent of the farm's above-plan profits are to be allotted for the payment of bonuses to managerial and technical personnel.

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Available information does not permit valid assessment of the effects of these new wage systems. They may have contributed somewhat to the substantial increase in labor productivity on state farms in 1956 compared with 1955. The effect on workers' incomes is not known, but it is possible that the new system of paying managerial employees may decrease their total earnings to some extent. 70/ The wage reform on state farms is not yet completed, for Khrushchev indicated in a recent speech that further changes are contemplated. 71/

3. Machine Building.

In June 1956 the Soviet government announced that new wage scales and work norms were to be put into effect in 14 enterprises of the machine building ministries. The plants selected for experimental testing of the new wage conditions (for example, the Kaganovich Ball Bearing Plant in Moscow, the Tractor Plant in Khar'kov, the Nevskiy Machine Building Plant in Leningrad, and the Kuybyshev Locomotive Plant in Moscow) represent a wide range of products and methods of production. The experiments are intended to supply data concerning the effects of the new wages and norms on workers' earnings and productivity. On the basis of the experience of the 14 plants, the ministries, with the concurrence of the State Committee on Labor and Wages, will issue general regulations extending the wage reform to all machine building enterprises during 1957. 72/

The wage changes were introduced in the experimenting plants beginning in August 1956. Plans called for the following changes: the establishment of a uniform, 8-grade wage scale, with labor grade coefficients ranging from 1.0 to 2.8; uniform base rates for time-workers and pieceworkers, with differentials for heavy and light work; base rate increases ranging from 36 to 55 percent for pieceworkers and from 10 to 37 percent for timeworkers; a substantial increase in the number of technically based norms; regrading of jobs and rewriting of job-rating manuals; and drastic curtailment of the use of progressive piece rates. In addition, the plants subordinate to the Ministry of Machine Building (and perhaps all of the experimenting plants) had to adopt the new regulations governing bonuses for timeworkers issued by the Ministry, probably in July. 73/ The regulations provide that timeworkers are to be paid bonuses for fulfillment of production plans, for reduction in idle equipment time and other factors causing production delays, for improving the servicing of equipment and work sites, and for raising

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product quality. Maximum bonuses of 20, 25, 30, and 40 percent are fixed for designated general categories of workers and for performance with respect to designated indexes, and within these limits the enterprise directors may award bonuses to individual workers and decide which jobs and shops in the plant are to be covered by the bonus system.

Considerable information has been made available with respect to the initial results of the new wage conditions in some of the experimenting plants. In the Kuybyshev Locomotive Plant, work norms were raised 48.5 percent and base rates 41 percent. For November, 4 months after introduction of the reforms, the plant's average wage was 1.7 percent above that for July, and the output per worker was 5.2 percent higher. 74/ In the first month of operation under the new conditions, however, wages of pieceworkers actually declined 4.9 percent, and 12.3 percent of them were unable to fulfill the new norms. 75/ In the Nevskiy Machine Building Plant, where the changes were made in August, the average percentage of norm fulfillment fell from 189 to 126.6 in September. Labor productivity in September was 17.5 percent above the average for 1955 and 6.9 percent above that for the first 8 months of 1956, while average wages were 4.6 and 1.8 percent higher, respectively. The base rates represented 69.1 percent of pieceworkers' total earnings in September compared with 51.2 percent for the first half of 1956, while for timeworkers the corresponding percentages were 79.0 and 68.5. 76/ Base rates were increased 38 percent for pieceworkers and 35 percent for timeworkers. 77/

The "Progress" plant (unidentified) in Leningrad reported that workers fulfilled their norms an average of 135.3 percent in September compared with 213 percent in August, before wages and norms were changed. 78/ Base rates were increased 43 percent. During the first month of operation under the higher base rates and norms, 30 percent of all pieceworkers had higher earnings, a "small group" earned less, and earnings of the rest were the same. Of timeworkers, 84 percent received higher wages, the wages of 12 percent remained the same, and those of the remaining 4 percent fell 30 to 70 rubles per month.

In the Kaganovich Ball Bearing Plant in Moscow, employing some 12,000 workers, norms were increased by an average of 52.3 percent, while the relative proportion of technically based norms increased from 12.5 percent to 40 percent. 79/ The new norms were overfulfilled by 15 to 20 percent compared with 50 to 100 percent under the old ones. With the introduction of higher base rates, the share of such rates in

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total earnings rose from 47.5 percent to 65 percent for pieceworkers and from 68.7 percent to 81 percent for timeworkers. As a result of the reclassification and regrading of jobs, the average grade of timeworkers was reduced from 6.5 to 5, and such workers now comprise 45 percent of the total labor force of the plant, compared with 20 percent before the changes. The director of the plant stated that during the first month under the new conditions the wages of "the overwhelming majority of workers have remained at the same level, with the exception of certain cases in which those of certain workers were obviously too high." 80/

In summary, according to the preliminary evidence available, the initial results of the wage reform in machine building have been fairly satisfactory, at least from the point of view of management. In general, the results have been as follows: substantial increases in base rates and even greater increases in work norms, a large drop in the average percentage by which norms are overfulfilled, a rise in the ratio of base rates to total earnings, downgrading of many jobs and transfers of significant numbers of workers from piecework to timework, and relatively small increases in average wages along with greater increases in labor productivity.* Various representatives of the 14 experimenting plants maintain, however, that the range of coefficients in the new 8-grade wage scale (1.0 to 2.8) is not great enough -- they have urged that the range be extended to 1.0 to 3.2 or 1.0 to 3.4. 82/

In addition to the work being carried out at the 14 plants, representatives of the various machine building ministries and the State Committee on Labor and Wages are preparing uniform occupational lists and a uniform job-rating manual. 83/ They are also working out uniform methods for remunerating engineering-technical and managerial employees.

4. Coal.

As part of a broad program to increase production in the coal industry of the Ukraine, the Council of Ministers of the USSR and the Central Committee of the Party issued a joint decree in October 1956 which provided, among other things, for a reduction in hours and a major revision in wage rates and methods of payment in the Ukrainian coal

* In some of the plants, where preparations for the wage changes allegedly were inadequate, the initial increase in the average wage exceeded the increase in productivity. 81/

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mining industry. 84/ The wage provisions of the decree are aimed at reducing the extremely high labor turnover and attracting new manpower to the mines by providing the workers with additional economic incentive. In addition, the decree is intended to correct some defects of the old system -- obsolete base rates (set in 1943), unjustifiably low ratio of base rates to total earnings (40 to 50 percent), payment of progressive piece rates starting with 80-percent plan fulfillment, excessive number of occupations, and numerous occupational wage rate inequities. 85/

The major provisions of the decree are as follows: (a) an 8-grade wage scale with labor grade coefficients ranging from 1.0 to 3.75 is established, and base rates are raised substantially; (b) the number of occupations is reduced by more than two-thirds, and workers are encouraged to master more than one skill; (c) bonuses, based on the work of the brigade rather than that of the individual worker, are paid for weekly plan fulfillment (instead of monthly as formerly) at the rate of 20 percent for plan fulfillment plus 2 percent for each percentage of output above plan; (d) increases ranging from 12 to 77 percent in salaries for managerial and engineering-technical employees are provided, plus bonuses of 30 to 50 percent for plan fulfillment and 3 to 5 percent for each percentage of above-plan production; and (e) mine managers are given the right to deny bonuses to workers who neglect their work or who commit progul (unjustified absenteeism). 86/ In addition, a new job-rating manual prepared by the Ministry of the Coal Industry has been approved. Finally, the Ukrainian Ministry of the Coal Industry has authorized payment of special bonuses, beginning in 1957, to outstanding workers who introduce production innovations which raise productivity and lower product costs. The bonus for an individual may not exceed his annual salary, nor may it be greater than 50 percent of the cost savings resulting from the innovation. 87/

Many of the features of the new wage system apparently were introduced in a few mines on an experimental basis earlier in the year. 88/ After the wage decree was issued in early October, its provisions were introduced gradually in a few mines at a time. The announcement was made that more than 100 mines in the Donets Basin (Donbas) would be operating under the new conditions by 1 November. 89/ By the middle of December, 215 Donbas mines -- more than two-thirds of the total -- had converted to the new system. 90/ If this wage system proves satisfactory in the Ukrainian coal mines, it will be extended to coal mines in other parts of the USSR.

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[redacted] claim considerable success for the new wage system. In one mine, which in June switched over to the payment of collective premiums based on fulfillment of the coal extraction plan, the cost of 1 ton of coal allegedly fell by 12.5 percent, wages rose 10.1 percent, and output per worker increased 16.3 percent. 91/ Similar claims concerning wages and productivity have been made with respect to other mines, in which the changes specified in the wage decree were introduced beginning in October. 92/ [redacted]

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[redacted] substantial increases in tonnage output of coal but do not claim a reduction in the cost per ton. [redacted] work discipline has improved because the individual worker's earnings are dependent upon the performance of all workers in the brigade. 93/ [redacted] wages in the experimenting mines rose by 24.2 percent. 94/

50X1

50X1

50X1

50X1

50X1

Preliminary evidence suggests that the new wage system will have favorable effects on output and productivity in the coal industry. Higher unit costs may result from the higher wages, however, unless the number of workers per brigade can be reduced and the workers can be induced to master a second trade. The reaction of the miners to the new wage and work conditions is not known. The wage reform, along with other measures started late in 1956, probably contributed materially to the success of the coal industry in the Ukraine in fulfilling its output plan for the last quarter of 1956 and the first months of 1957. 95/ In the long run it seems likely that the wage reform will result in a significant increase in the average wage of coal miners. Indeed, the deputy minister of the coal industry reportedly stated to a British union delegation that miners believed their wages to be too low relative to those in other industries and that as a result of the current revisions wages would be raised generally throughout the industry. 96/ Higher wages seem to be an integral part of a concerted program of incentives being offered by the government to attract and hold manpower in the arduous and unpopular jobs in coal mines.

5. Nonferrous Metallurgy.

In October 1956 it was announced that the Ministry of Non-ferrous Metallurgy, together with the "inspector for the metallurgical and chemical industries" of the State Committee on Labor and Wages, had agreed upon the fundamental provisions for reorganizing the wage structure of the industry. 97/ Plans call for the following: (a) replacement of the existing 92 labor grade scales and more than 800 base rates with

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a single 8-grade scale and 40 base rates, the labor grade coefficients to range from 1.0 to 3.0; (b) establishment of 5 sets of base rates, the highest for miners working underground and the lowest for auxiliary workers of various kinds; (c) wage differentials of 15 percent and 30 percent for work in high altitudes; (d) geographical wage differentials as recommended by the Committee for Wage Zones and Coefficients (presumably a subcommittee of the State Committee on Labor and Wages); (e) equalization of wage rates for all workers in plants in the Urals, Siberia, and the Far East (at present a 20-percent wage differential applies to part of such workers); (f) establishment of uniform rates for the wolfram, molybdenum, gold, platinum, and rare metals branches of the industry; (g) a uniform scale of progressive piece rates and uniform system of bonuses for time- and auxiliary-workers; and (h) a review of work norms. The Ministry of Nonferrous Metallurgy has also prepared a new job-rating manual. 98/

According to preliminary estimates of the Ministry, the new wage system will raise the relative share of base rates in total earnings to 72 percent for pieceworkers and 82 percent for timeworkers, with work norms to be fulfilled by 110 to 115 percent on the average. In order to determine how the system will work out in practice, the Ministry ordered eight enterprises to put it into effect during the last quarter of 1956. 99/ The eight enterprises are the following: the Noril'sk Combine, the Lena Gold Trust at Bodaybo, the Urals Aluminum Plant in Kamensk-Ural'skiy, the Degtyarsk Ore Mining Directorate, the Leninogorsk Metallurgical Combine, and the Dzhezkazgan Ore Mining Directorate. The new system was introduced in three Dal'stroy placer mines on 1 May 1956. 100/

6. Other Industries.

In November 1956 the Ministry of Ferrous Metallurgy of the USSR announced that agreement had been reached with the State Committee on Labor and Wages on the basic features of a wage revision in the industry, and that the revisions were being introduced on an experimental basis in several enterprises. 101/ The new system, which is similar in a number of respects to that worked out for nonferrous metallurgy, provides for the use of 3 labor grade scales -- a 10-grade scale with grade coefficients ranging from 1.0 to 3.2 for payment of production workers in coke-chemical shops, an 8-grade scale with coefficients ranging from 1.0 to 3.0 for production workers in mining operations, and an 8-grade scale with a range of 1.0 to 2.8 for all other workers. The

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proposed wage scale and wage rates for mining operations are the same as those adopted by the Ministry of Nonferrous Metallurgy. For non-mining operations, three sets of base rates are fixed, the highest applicable to pieceworkers on hot or heavy work, the second for pieceworkers on cold work and timeworkers on hot work, and the third for timeworkers on cold work. The new base rates are 48 percent above existing ones. Numerous progressive piece-rate and bonus systems are to be replaced with a uniform set of rules for calculating bonuses for plan fulfillment. Machine building enterprises under the Ministry of Ferrous Metallurgy are to use the wage scales fixed for the machine building ministries. Likewise, timber enterprises, construction organizations, and geological exploration activities subordinate to the Ministry are to operate under the wage systems approved for those branches of industry. Geographical wage differentials will be fixed in accordance with those established for industry as a whole.

Preliminary steps toward a general wage reform have also been taken in other industries. Various departments of the Ministry of the Timber Industry are working out draft plans for revision of the wage system in certain sectors of the industry, in accord with general guides laid down by the Collegium of the Ministry. 102/ In January 1957 a new wage system was introduced on an experimental basis in several large railroad stations, with the progressive piece-rate system being replaced by straight piece rates plus bonuses. 103/ Preparatory work has begun in the Ministry of the Radiotechnical Industry with the intention of introducing new wages and norms in that industry in 1957. 104/ An experimental wage system, perhaps identical to that being used by the 14 machine building plants, is being used in an unidentified plant in the aviation industry. 105/ The Ministry of the Automobile Industry has sent draft proposals concerning the details of a norm and wage reform to the enterprises for discussion and comment and is also working on the draft of a new job rating manual. 106/ Finally, the State Committee on Labor and Wages has approved proposals for the reorganization of wages in the chemical industry and in highway transport and is reviewing proposals for the gas and petroleum industry. 107/ The Ministry of Health plans to try out in early 1957 a new system of payment in seven plants producing medical instruments. 108/

Besides directing the wage reforms in individual industries, the State Committee on Labor and Wages is working on policies to be applied nationally. As noted above, a subcommittee on "wage zones and coefficients" is preparing proposals for the establishment of uniform

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geographic wage differentials*; presumably this subcommittee is also reviewing the existing provisions concerning bonuses and privileges for work in the Far North. The industrial ministries have been directed to work out standard work norms to be used by all enterprises in a given ministry. 110/

Policies to govern the payment of engineering-technical and managerial employees are also being developed. Effective 1 January 1956, additional sums for payment of bonuses to meritorious workers were made available to the enterprises through a liberalization of the rules governing the formation and administration of the special "enterprise fund." 111/ These special funds, established in eligible enterprises and financed by specified deductions from profits, are placed at the disposal of enterprise managers to be used for bonuses to workers and for other designated purposes.

D. New Bonuses for Technological Improvements.

On 1 August 1956 a new system of paying bonuses for technological improvements was put into effect in the USSR. 112/ The new rules, which replace those established in 1947-48, authorize the payment of bonuses to engineering-technical employees for working out and introducing within a fixed period improved machines, equipment, and materials used in production, as well as for improvements in the quality of the final product. In contrast with the old system, the amount of the bonus under the new arrangements will depend on the monetary economies resulting from the technological innovations and on the speed with which they are introduced in production. Bonuses range from 5 to 30 percent of the annual economies. If the savings are less than 200,000 rubles, the bonus may be as high as 30 percent, but for savings of more than 50 million rubles, the bonus may not exceed 5 percent, and in no case may it exceed 3.5 million rubles. Bonuses for improved quality of product are fixed at half those for technological improvements. Bonuses are to be paid in installments at designated stages in the design and introduction of the new technological improvements, which must be completed within the planned period -- otherwise the bonus will be withheld or reduced.

* According to the Chairman of the State Committee on Labor and Wages, there are to be 5 wage zones with the following wage coefficients:
Zone 1, 1.0; Zone 2, 1.15; Zone 3, 1.3; Zone 4, 1.5; and Zone 5, 1.8. 109/

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The following general criteria for determining the economic effectiveness of technical innovations have been established by an interdepartmental commission representing the interested ministries and committees: (1) the extent of reduction during the first and second years in net cost per unit of product; (2) comparison of the new unit cost with unit-cost levels in other Soviet enterprises and in foreign enterprises; (3) the extent of the increase in output per worker; and (4) the extent of reduction in capital expenditure per ruble of output. Funds for the payment of the bonuses are to be provided, not from regular wage funds as before, but from special funds established centrally in each ministry concerned and fixed at 0.3 percent of total planned product cost for the year.

In order to encourage the enterprises to produce new products, changes have also been made recently (probably about mid-1956) in the rules for paying plan-fulfillment bonuses to managerial and engineering-technical employees. 113/ The amount of the bonus will now depend on the percentage of total ruble output that consists of products newly produced in the enterprise, in contrast to the old method, under which bonuses were paid for plan fulfillment and overfulfillment regardless of whether or not the products were new.

E. New Procedures for Review of Work Norms.

On 15 August 1956 the Council of Ministers of the USSR promulgated a decree entitled "Concerning a Change in the Method of Review of Work Norms," which radically altered the procedures for revising norms. 114/ The decree, effective 1 January 1957, gives enterprise directors the right to determine the amounts by which work norms are to be increased each year, as well as the time or times when such adjustments are to be made. These decisions must be made in agreement with the appropriate trade union representatives in the plant. The decree also stipulates that norms may be raised only on those jobs that have been affected by changes in technology or work methods.

Under previous procedures, work norms were revised annually throughout Soviet industry in January and February, with the inauguration of new annual economic plans. In January the enterprise received from its ministry specific assignments on raising work norms, which specified the percentage by which plant work norms were to be increased and the date by which this was to be accomplished. When norms were thus reviewed and revised, they might remain unchanged for the rest of the year. This one-time, mass review of work norms allegedly had the following serious shortcomings:

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1. In general, each ministry fixed norm increases by establishing flat percentages applicable to all enterprises under it, or it fixed the goal for each enterprise by mechanical reference to the past performance of the enterprise with respect to fulfilling the norms. Under these conditions, tasks were often set too low for some enterprises and too high for others.

2. Because it proved physically impossible to restudy the thousands of piece-rate jobs during the allotted period, enterprises tended to raise norms for such jobs by flat percentages, regardless of whether or not job conditions changed in such a way as to make possible the fulfillment of the new norms. This approach sometimes resulted in unwarranted increases in norms and consequent unjustified reductions in workers' earnings.

3. Enterprises adopted the practice of not revising work norms at the time that technological changes were made but instead waited until the annual review period to do so. This practice resulted in overexpenditure of wage funds and in excessive earnings for some workers.

4. Norms actually being used no longer represented true output standards, and norm reviews had become a sham, as indicated by the fact that in many instances the new norms were quickly overfulfilled to as great an extent as the old ones.*

The new method of work norm revision represents a much more rational approach to the task of keeping norms in line with technical progress and changes in work methods. As a part of the general Soviet drive for economic efficiency and decentralization of decision making, the new decree grants great authority to the directors of individual enterprises in the important area of norm determination. Formerly, plant managers had merely the responsibility for fixing the initial work norms on individual jobs and had to adhere whenever possible to standard schedules set forth in manuals issued by the ministry. Under the new decree they are now able to decide when norms are to be increased and by how much. Presumably they also have the right to decrease norms

* See p. 13, above.

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on particular jobs when warranted. The fact that annual economic plans for the enterprise will continue to call for increases in labor productivity and decreases in production costs, however, will generally prevent plant managers from reducing norms.

F. Controls over Wage Fund Expenditures.

Overexpenditure of planned wage funds by enterprises in the USSR and the accompanying delays in wage payments to workers have been chronic problems for many years. Wage fund overexpenditures, which contribute to inflationary pressures in an economy operating at full capacity with perennial shortages of consumer goods, are of considerable magnitude, particularly in certain industries. Thus during the first half of 1955, timber enterprises in Khabarovskiy Kray exceeded approved wage funds 8.9 percent, while industrial enterprises in the Kray as a whole overspent 5.9 percent. 115/ During 1954 the Ministry of the Paper and Wood Processing Industry of the USSR overspent its total allotted wage fund by 37 million rubles. 116/ Likewise, wage delinquencies also have been frequent and of considerable magnitude.

Overexpenditure of planned wage funds has resulted from a variety of factors, including the following: employing more workers than called for by the plans, failure of the annual technical-industrial-financial plans of the enterprises to make sufficient allowances for required wage payments, failure of the plans to allow for emergencies requiring overtime and extra wage payments, imposition of above-plan production requirements without adequate provision for necessary additional wage funds, and faulty estimates of the effect of norm revisions on total wage expenditures. In addition, the widespread use of progressive piece rates and of a multiplicity of complex bonus formulas makes the task of planning wage funds extremely difficult and leads to overexpenditures.

Overexpenditure of allotted wage funds is probably the most common cause of enterprise wage delinquencies to workers. Under the Soviet system, wage fund disbursements are closely controlled by the banks. When an enterprise seeks to exceed its planned wage fund for any month, the bank can release the necessary funds on its own initiative only under narrowly defined conditions. Otherwise, funds can be released only upon receipt of specific authorization from the chief directorate or ministry to which the enterprise is subordinate.

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Because the superior organization will have to redistribute wage funds to cover a given overexpenditure and may even be forced to appeal to its superior, the necessary authorization may not be quickly forthcoming, with the result that wage payments to workers are similarly delayed.

In 1954 the Soviet government launched a concerted drive to minimize wage delinquencies and overexpenditures, as part of a general move to maximize enterprise profitability and to strengthen bank control over enterprise finances. A decree of the Council of Ministers of 21 August 1954 entitled "On the Role and Tasks of Gosbank USSR" required enterprises to make up during a 3- to 5-month period any wage fund overexpenditure not related directly to overfulfillment of the production plan. 117/ To do so, the enterprises must increase worker productivity or reduce wage costs. The banks are empowered to enforce these obligations. To minimize delays in payment of wages to workers, the decree also gives wages the first claim on enterprise funds. 50X1
This means that wage payments have priority over payments to suppliers, repayment of bank loans, and other financial obligations. [redacted] 50X1
[redacted] this new system has reduced the level and frequency of wage fund overexpenditures and has had beneficial effects on enterprise productivity in many instances. 118/ [redacted] 50X1
[redacted] shortcomings in methods of control over wage disburse-50X1
ments are still numerous. 119/ It seems likely that these methods will be revised further, in line with the general move to strengthen the powers of the organs of state control in the USSR.

Another measure that should help to reduce instances of excessive wage payment is the broader authority to manipulate wage funds recently granted to enterprise directors. In a decree of the Council of Ministers of 9 August 1955, enterprise directors were granted the right to "economize on the wage funds received in the preceding quarters for the payment of wages in the subsequent quarters of the same year." 120/ These new powers will permit the accumulation of funds for defrayment of future unplanned wage payments.

Finally, one of the objectives of the current general wage reform is to reduce the pressures for overexpenditures of wage funds that stem from the nature of the existing wage system. This is to be accomplished in part by curtailing the application of progressive piece rates, limiting their use to situations where it is considered vital to secure production irrespective of cost. Higher base rates, which are being introduced, should make it no longer necessary for enterprise managers to devise bonuses and extra payments of various kinds in order to

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keep timeworkers' earnings in line with those of pieceworkers. The efforts to improve procedures for planning and material procurement which are being made along with the wage reform also should help greatly to reduce wage delinquencies and overexpenditures.

G. Probable Effects of the Reforms.

The execution of an over-all reform of wages and work norms throughout the economy of the USSR is exceedingly complex and time consuming. Hundreds of thousands of norms must be recalculated and many thousands of estimates made of the probable effects of the revised norms and wage rates on workers' earnings, labor productivity, and product costs. Revisions necessarily must proceed slowly, for miscalculations of any magnitude could alter the basic cost-price structure and upset the planned balance of consumer income and expenditures. Although the wage reform has proceeded somewhat slowly thus far, its completion by the end of 1960 -- one of the major objectives of the Sixth Five Year Plan (1956-60) -- should be achieved.

The government has shown unmistakably, both by word and deed, that the wage and norm changes must not reduce workers' earnings. ^{121/} On the contrary, the average wage of workers and employees, currently estimated at about 700 rubles per month, will undoubtedly rise as a result of the reforms. Even without other changes, the higher minimum wages that took effect in 1957 will raise the wage level slightly. Also, the preliminary results of the wage reform in construction and in the experimenting enterprises in the coal and machine building industries indicate a rise in workers' earnings. According to plan fulfillment announcements, the average wage of all workers and employees in the USSR rose 3 percent in 1956 compared with a rise estimated to have been 2 percent in 1955. ^{122/} The chairman of the State Committee on Labor and Wages has stated, moreover, that during 1957 wage reforms in the machinebuilding, coal, cement, and metallurgical industries will be carried out with "additional funds allocated for that purpose." ^{123/} In his speech to the XXth Party Congress, Khrushchev stated that during the Sixth Five Year Plan retail price reductions would be on a smaller scale than in former periods and that funds saved in this way would be devoted to a number of enumerated measures, including the wage reform. ^{124/} More specifically, [redacted] the scheduled increase of 30 percent in real wages during the Sixth Five Year Plan will be achieved primarily through an increase

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in money wages. ^{125/} Finally, the wage level necessarily must rise if wage differentials that will attract manpower to the desired areas and industries are to be established while at the same time wages in the rest of the economy are not lowered.

The probable effect of the wage reform on earnings differentials is difficult to assess because the expressed objectives with respect to differentials are contradictory. On the one hand, the alleged "equalitarian" trend in earnings is to be halted by establishing occupational, industrial, and geographical wage differentials that will encourage the acquisition of skills, provide adequate compensation for differences in job difficulty and work conditions, and stimulate the voluntary migration of labor to the desired industries and areas. At the same time the wages of the lowest paid workers are being raised, and it is intended to reduce some "unjustifiably high" earnings. The new base wage scales thus far established seem, on balance, to provide for wider occupational differentials; the magnitude of the new "zonal" and industrial differentials is not yet fully known. In contrast, the new minimum wage substantially raised low wage rates, while the potential for high earnings will probably be reduced through curtailment of the use of progressive piece rates and a sharp reduction in the number of bonus systems.

After the wage reform has been carried out in most of Soviet industry along the lines currently contemplated, the general level of work norms will be much higher, and the whole system of norms will make infinitely more sense than it does now. Introduction of the new wages and norms plant by plant is being carried out simultaneously with a whole series of measures to mechanize production operations and to organize more efficiently the entire production process of the plant. These measures, combined with higher base rates and improved bonus systems geared more closely to individual and plant productive efficiency, should contribute materially to increased labor productivity and lower unit labor costs. The early results of the changes in some of the experimenting machine building and coal enterprises show increases in productivity, increases which also usually have exceeded the rise in the average wage. On balance, it is likely also that the rationalization measures accompanying the changes in wages and norms will help to reduce unit costs. In addition, the simplification and standardization of the wage and norm structure, once effected, ought to reduce administrative costs. On the other hand, total wage costs will undoubtedly rise as a result of the reform. Some increase in money wage levels is explicitly contemplated by the government, and

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appropriate allowances will be made in the plans for this. Costs could rise even more than planned, however, if there is serious miscalculation of the effects of the changes in wages and norms on workers' earnings.

In the long run, worker reaction to the wage reform will probably be favorable. The worker will like the increased earnings which will accrue to him from the wage changes, even though the new norms may require him to work harder. His task will be lightened, however, if the program to improve the general efficiency of his plant and industry succeeds, for his earnings potential will be less frequently reduced by machine breakdown, irregularity of supplies, and other production difficulties. The worker also should approve the simplification of the system by which he is paid and the greater rewards for acquiring education and skills. If the government can provide consumer goods and services sufficient to absorb the newly created purchasing power, the Soviet worker will be better off under the new wage regime.

During the difficult process of establishing the wage reform, however, some adverse worker reaction is to be expected, for the average worker can hardly be expected to welcome the additional pressure for increased output per unit of wage expenditure. Indeed, several instances of concerted worker protests against wage and norm practices reportedly occurred in the fall of 1956 in Moscow machine building plants, 126/ one being the large Kaganovich Ball Bearing Plant.* The mere fact of change in itself may be unsettling to the worker, for he cannot be sure how his personal fortune will be affected. The earnings of some workers may actually decline during the initial phases, even though such is not the intent, because of miscalculation of the workers' ability to cope with the new norms or failure to carry out adequate preparatory work. It is believed, however, that such difficulties and unfavorable worker reaction are transitory and that on the whole the wage reform will have positive effects on worker morale.

* According to available evidence, the strike at the Kaganovich plant involved grievances concerning bonus awards and working conditions in addition to dissatisfaction over some of the results of the wage reform. 127/

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