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Soviet Economic Policy in Transition: Lessons of the 1981-85 Plan



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An Intelligence Assessment

State Dept. review
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December 1982

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Soviet Economic Policy in Transition: Lessons of the 1981-85 Plan

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An Intelligence Assessment

This paper was prepared by [redacted]
Office of Soviet Analysis. Comments and queries are
welcome and may be addressed to the Chief, Policy
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**Soviet Economic Policy
in Transition: Lessons of
the 1981-85 Plan**

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Key Judgments

*Information available
as of 31 December 1982
was used in this report.*

The overall policies embodied in the 11th Five-Year Plan (1981-85) remain the current Soviet guideline for wrestling with the unique economic problems of the 1980s. These policies are not bold and innovative but represent the tenacious plodding that was the hallmark of the late Brezhnev era. Some divergence of opinion has been apparent within the leadership over these policies—to some extent the result of succession maneuvering.

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Seven policy areas capture the essence of the 1981-85 Plan and reveal the major sources of contention within the Soviet leadership:

- *Resource Allocation.* Investment will be a relative loser apparently because there were persuasive reasons for not cutting the planned growth of defense or consumption. The wisdom of allowing investment growth to slide has become a major issue.
- *Investment Priorities.* Industry will receive the largest increase in investment with the fuel and power industries taking two-thirds of this increase. Dividing an only slightly larger investment pie has exacerbated regional disputes and the traditional rivalry between patrons of heavy and consumer goods industries.
- *Consumer Welfare.* The plan's commitment to the consumer requires taking resources from traditionally higher priority sectors. Leadership support for the consumer has varied widely, ranging from blatant consumer advocacy to the view that "consumerism" is ideological anathema.
- *Economic Reform.* The plan is long on reform rhetoric but short on concrete solutions, in effect, encouraging public discussion of reform proposals without adopting a reformist course. Currently, the leadership is arguing the relative merits of a regional versus sectoral organization of the economy and the proper role of the party in economic management.
- *Agriculture.* The plan shifts the major focus away from boosting farm productivity to increasing efficiency of the entire food production and marketing chain. The new Food Program introduced in May features a change in organization, shift in investment, and improved incentives. Half measures taken in this program, however, indicate still unresolved issues over power sharing between Moscow and regional authorities.

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- *Manpower.* The plan continues current efforts to remedy immediate problems but does little to tackle areas with a potential for larger eventual payoffs including automation, regional investment and manpower shifts, and raising the birth rate. Regional sensitivities, traditionally given more weight in a succession period, are largely to blame for the postponement of decisions on these issues.
- *East-West Trade.* Bearish prospects for East-West trade are indicated by the modest growth planned for the volume of trade with non-Communist countries—only 2.5 percent annually compared with 5 percent during 1976-80. High-level differences over the importance and strategy of East-West trade are still evident, as they were at the inception of Brezhnev's detente policy. [redacted]

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These policies suggest that the Brezhnev leadership favored:

- Short-term gains that emphasize results now with little regard for long-run consequences.
- Administrative solutions rather than basic systemic change.
- Incrementalism—piecemeal or experimental introduction of major new policies.
- An evenhanded but restrained use of the carrot and stick for getting results.
- The preservation of untouchable areas, largely immune to budget cuts or significant revision. [redacted]

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Brezhnev's passing has altered the power balance, and the new leadership might have a different perception of the economic dilemma that could eventually change its approach to economic decisionmaking:

- Possessing a longer time horizon, the new leaders may place a greater emphasis on policies with a longer term impact.
- Harsher economic circumstances might justify tightened discipline and control to effect economic policy rather than reliance on new economic levers or incentives.
- The power transfer could be a propitious time to modify particularly burdensome policies. [redacted]

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Such changes in approach may lead to these policy shifts:

- A modest cut in the growth of defense spending.
- A larger share of investment funds channeled to machine building and such bottleneck areas as transportation and metals.
- In the consumer area, a sharper differentiation of material rewards based on individual performance.
- Some shift in investment and manpower among regions to ease the growing geographic imbalance in the labor force. 25X1

The new leaders probably would not expect these new policies to be a panacea to the economy's basic ills but would anticipate marginal improvements that would allow them to continue muddling through. Of primary importance to the new leaders would be the knowledge that such policies would not diminish their power and would still allow them to marshal resources quickly to overcome external or internal threats to their security or stability. 25X1

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**Soviet Economic Policy
in Transition: Lessons of
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Introduction

The 1980s present the Soviet leaders with a unique set of economic problems—old ones, such as declining productivity growth and a lagging agricultural sector, combined with more recent phenomena such as stagnating oil output and reduced growth in the labor force. They acknowledge the scope and intensity of their economic problems and realize that, as a result, growth during this decade will slow substantially.¹ But do they have a grand strategy to counter the expected slowdown or at least have they formulated ways to cushion its inevitable impact? [Redacted]

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The beginning of a new planning period (for 1981-85) gave the Brezhnev leadership an opportunity to take stock and to reach long-term decisions about economic policy. The draft directives presented to the 26th Party Congress in March 1981 and the final plan delivered to the Supreme Soviet session in November 1981 provide some insights into the decisions reached. Supplemented with leadership speeches, conversations between Soviet officials and Westerners, and key press articles, answers to three broad questions can be discerned:

- What are the major policies of the 11th Five-Year Plan?
- Why were these particular options chosen?
- Is there evidence of broad consensus among the leadership for these policies? [Redacted]

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Soviet economic policies are made within a political context. The leaders decide such questions not only on economic merits but also according to their own ideological predispositions, individual party-government responsibilities, and relative political power. The inverse is also true. The types and success of economic decisions can affect institutional and bureaucratic interests as well as the political balance within the leadership. The importance of the political aspect

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[Redacted]

increases prior to and during a succession because economic policy choices inevitably become intertwined with political maneuvering. [Redacted] 25X1

This paper discusses the major policies of the plan and treats these choices within the political context. It also speculates about possible changes that the post-Brezhnev leaderships might introduce during the remainder of the 1980s in the economic policy areas outlined for the 1981-85 Plan. This period probably will witness two successions. The Andropov-led leadership, composed of men in their late sixties or early seventies, might last only three to five years, with a considerably younger group emerging toward the end of the decade. The "first succession," however, probably will determine the main directions of economic policy for the rest of the 1980s. In an attempt to narrow the policy options that the new leaders might choose, the paper first examines the mind-set of the Brezhnev leadership—certain precepts that guided the leaders in making economic decisions. It then explores how this mind-set might change with the new leadership and how this change, combined with other factors, could bring about policy shifts. It also speculates, in some instances, about whether the changed mind-set would apply to those in the "second succession." [Redacted] 25X1

Key Policies of the Plan

Soviet economic policy encompasses a myriad of topics but its essence can be captured by examining seven major areas:

- Basic resource allocation.
- Investment priorities.
- Consumer welfare.
- Proposals for economic reform.
- Agricultural policy.
- Manpower and demographic policy.
- East-West trade policy.

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This first section analyzes the 1981-85 Plan to determine current Soviet economic policy in each of these areas, followed by a discussion of how each differs from previous policy and whether it has generated political controversy. Most Politburo members have written or spoken on the economy enough to allow some judgments about their respective positions on the major issues. New General Party Secretary Andropov, however, has spoken only rarely and without distinction in recent years, forcing us to rely largely on statements from his pre-KGB days (before 1967). [redacted] 25X1

The Major Resource Claimants—Investment the Loser

The 1981-85 Plan indicates that of the three major resource claimants—investment, consumption, and defense—investment was a relative loser. It seems likely from other evidence that defense and perhaps personal consumption² managed to claim a larger share. The shift away from the traditional emphasis on investment began in the 1976-80 Plan when investment growth was set at historically low levels—26 percent over 1975—and for the first time did not exceed planned growth in national income (see table 1). Chairman of the Council of Ministers Kosygin, in a 1979 *Kommunist* article, called attention to this shift and noted that this was “a positive trend It must be enshrined in plans for the future.” [redacted] 25X1

Accordingly, investment growth in the draft plan directives for the period 1981-85 was low (12 to 15 percent), and even fell below the planned growth in national income (18 to 20 percent)³—indicating a relative loss in investment’s claim on resources compared with the 1976-80 Plan. By the time the final targets were published in November 1981, the gap between investment and national income growth had widened even further—the goals were set at 10.4 percent and 18 percent, respectively. [redacted]

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² Personal consumption here is distinguished from the broad consumption category used in Soviet national accounts, which includes “material purchases of institutions serving the population [and] of science and administration” and also some items of defense spending. [redacted] 25X1

³ Official Soviet measures of economic growth are largely used in this paper in order to get the Soviet perspective. National income, for example, is used instead of the Western-derived indicator, gross national product. [redacted] 25X1

The rhetoric accompanying the release of the plans indicated that the leadership was under no illusions that the path chosen would be an easy one. Both President Brezhnev and Gosplan Chairman Baybakov admitted that expanding output on such a small growth in the investment base seemed ambitious but would be made possible by:

- A reduction in the large amount of unfinished construction.
- A planned improvement in the “technological structure” of investment (a larger ratio of equipment to construction). [redacted]

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The leadership’s decision to cut investment growth, however, could not be attributed solely to confidence in a large boost in capital productivity. Similar strategies had been tried in the past with very limited success.⁴ Neither could the decision be entirely explained by the general decline in growth that caused a shortage of materials essential for construction and machinery production, such as metals. If this had been the case, all claimants might have been expected to share equally in the cutback.⁵ It seems more likely that the slowdown in investment growth was linked to a conscious decision by the leadership not to reduce defense and consumption growth. Investment, of necessity, became the residual resource claimant, and poor growth prospects—particularly as hopes for a good harvest faded in the summer of 1981—forced disproportionate cuts. [redacted]

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The military apparently was successful in retaining the primacy of defense spending for 1981-85. In late May 1981 a deputy chairman of Gosplan, N. P. Lebedinsky, told a former US Government official that the Soviets were making eleventh-hour changes in their 1981-85 economic plan to accommodate “large increases” in defense spending. [redacted]

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⁴ A campaign to reduce the amount of unfinished construction, for example, was attempted during the period 1976-80. The plan directives pledged that the amount of unfinished construction as a percentage of total fixed capital investment would fall from 76 percent in 1975 to 65 percent by 1980. Instead, it rose to 80 percent. [redacted]

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⁵ A metals shortage, for example, could result in cutbacks in passenger car output (consumption), tank production (defense), or machine tools (investment). [redacted]

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Table 1
USSR: Major Economic Targets of the
10th and 11th Five-Year Plans ^a

*Growth rate over
preceding plan period
in percent*

| | 1976-80 Plan | | 1976-80 Actual | 1981-85 Plan | |
|---|------------------------|-------------------|-------------------|------------------------|-------------------|
| | Directives (Dec 75) | Final (Nov 76) | | Directives (Dec 80) | Final (Nov 81) |
| National income | 24-28 | 26 | 20 | 18-20 | 18 |
| Industrial output | 35-39 | 36 | 25 | 26-28 | 26 |
| Group A (producers goods) | 38-42 | 38 | 26 | 26-28 | 25.5 |
| Group B (consumer goods) | 30-32 | 32 | 20 | 27-29 | 26.2 |
| Agricultural output | 14-17 | 16 | 7 | 12-14 | 13 |
| Industrial labor productivity | 30-34 | 31 | 17 | 23-25 | 23 |
| Capital investment | 24-26 | 26 | 18 | 12-15 | 10.4 |
| Real per capita income | 20-22 | 21 | 18 | 16-18 | 16.5 |
| Wages of blue- and white-collar workers | 16-18 | 17 | 16 | 13-16 | 14.5 |
| Payments to collective farmers | 24-27 | 26 | 26 | 20-22 | 20 |
| Total new housing construction (million square meters) | 545-550 | 550 | 530 | 530-540 | 530 |

^a Official Soviet data.

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There is some evidence that the leadership may also have been persuaded that consumption growth should fall no further even at the expense of investment growth. Articles in Soviet economic journals had pressed hard the line that at this stage of development the demands of consumption were more important than those of investment. For example, S. S. Shatalin, an economist, said in the fall of 1981, that:

... accumulation [that is, investment] should not be a self-sufficing economic variable ... but its amount should be determined as a result of the finding of the optimum ratio of consumption and accumulation in the national income, of which the assurance of the highest possible growth rate of the well-being of the people—is the criterion.

By mid-1981 when dismal economic prospects would have forced downward revisions in the five-year plan, the argument for maintaining consumption growth

would have been particularly persuasive. The rising power of the Polish worker and consumer raised the specter of similar developments elsewhere in the Bloc and even in the Soviet Union. In April Politburo member Konstantin Chernenko had warned, probably with Polish developments in mind, that if popular needs were ignored for the sake of production, not only the people, but production too, would suffer. 25X1

The slowdown in investment growth was undoubtedly a highly contentious issue within the leadership. Historically, the sectors such as heavy industry, with strong support on the Politburo, have had gargantuan appetites for new plant and equipment. Moreover, leaders with long experience probably realized that the boost in capital productivity would not be large enough to compensate for the smaller increments in investment resources. Brezhnev seemed to acknowledge the controversial nature of the policy in the choice of words he used to announce the further investment growth cutback in November. Instead of a

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straightforward statement of fact, as is usual, he tried to project a united front for the policy while also implying that the Politburo did not originate the idea: "The Politburo of the CPSU Central Committee has supported the government's proposal for reducing . . . the volume of capital investment originally planned . . ."

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The major controversy probably centered on consumption's rightful place in the pecking order. Those who favored priority for expansion of new plant and equipment probably were pitted against those who believed that increased productivity and domestic tranquillity were directly dependent upon meeting consumer expectations.⁶ Since at that presuccession juncture, few would have chanced alienating the powerful defense establishment, serious opposition to the demands of the defense sector would have been unlikely.

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The strongest and most direct public criticism of the policy to reduce investment growth appeared in the March 1982 issue of *The Economics and Organization of Industrial Production* (EKO).⁷ Striking at the heart of the issue, the authors argued that rapid investment growth was essential for increased capital productivity and the success of an intensive development strategy. The cut in investment growth has also been strongly opposed by local leaders. Speeches by regional leaders at the Supreme Soviet in November, as well as at their own plenums following the national session, reflected a deep concern over the shortage of investment capital and its effect on meeting production goals. Representatives of the manpower-short European regions worried that a lack of capital to modernize facilities would make growth in their areas even more difficult. Delegates from the Central Asian republics, on the other hand, argued the need for additional investment to provide jobs for their rapidly growing populations.

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⁶ See section on consumer welfare policy for a fuller treatment of Politburo member positions on this issue.

⁷ This is the house organ of the Institute of Economics and Organization of Industrial Production (Siberian Department of the Academy of Sciences), headed by the influential economist A. Aganbegyan.

Investment Policy—Dividing Only a Slightly Larger Pie

The draft guidelines in March 1981 revealed the general philosophy that would guide the allocation of investment funds among the competing sectors, those that were already familiar from the previous plan. Investment would be concentrated in those sectors that:

- "Guarantee progressive changes in the structure of the economy."
- "Bring fuel, energy, mineral, and raw materials resources of the eastern and northern regions of the country into national economic use." A corollary was a "severe restriction" on new projects in the industrialized areas of European Russia.

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In November, speeches by planning officials elaborated on these broad investment goals. Industry would receive the largest increase in investment during 1981-85—a 23-percent boost compared with 1976-80 (table 2). Within industry, the largest increases would go to fuels and power and ferrous metallurgy—up 50 and 30 percent, respectively. Investment in machine building would "significantly exceed" the level of 1976-80. Assuming the latter means an increase of at least 10 percent, these three sectors alone would account for over four-fifths of the increment in industrial investment during 1981-85.

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Consumer-related investment decisions were mixed. The pluses were:

- Agricultural investment was to retain its share of the total—27 percent—as promised in the draft guidelines and urged by Brezhnev as early as 1978.
- Investment in the food processing industry and storage facilities would grow faster than that in the agricultural sector.
- "Large sums" would be channeled "to create additional capacities for the production of consumer goods in the heavy and defense industry sectors."

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Table 2
USSR: Investment in the 11th Five-Year Plan

| Sector | 1976-80 Actual ^a | | 1981-85 Plan ^b | |
|--|-----------------------------|------------------|---------------------------|------------------|
| | Billion rubles | Percent of total | Billion rubles | Percent of total |
| Total economy ^c | 634.1 | 100.0 | 700 | 100.0 |
| Of which: | | | | |
| Industry | 223.6 | 35.3 | 275 ^d | 39.3 |
| Ferrous metals | 15.2 | 2.4 | 20 ^d | 2.9 |
| Fuels and power | 65.7 | 10.4 | 100 ^d | 14.3 |
| Machinery | 53.9 | 8.5 | 59 ^e | 8.4 |
| Agriculture—"entire complex of works" ^f | 171.0 | 27.0 | 190 | 27.1 |
| Transportation and communications | 75.9 | 12.0 | NA | |
| Railroads | 17.3 | 2.7 | 21 ^d | 3.0 |
| Construction | 25.4 | 4.0 | NA | |
| Housing | 86.3 | 13.6 | 93 | 13.3 |

^a *Narodnoye Khozyaystvo SSSR v 1980g*, p. 337.

^b Various Soviet sources.

^c Investment in facilities that produce military goods is classified with the sector that produces the goods, primarily the machinery sector. Expenditures for the procurement of military hardware are not considered investment as defined in this table.

^d Estimated.

^e Based on a statement by a Soviet official that capital investment in machine building will significantly exceed the level of the previous five-year period.

^f This expanded Soviet concept of agricultural investment includes direct investment in state and collective farms for productive purposes—construction, electrification, and acquisition of equipment—in addition to "nonproductive" investment such as rural housing and services.

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Other consumer areas were not so fortunate:

- Although housing construction would grow, its share of total investment would fall compared with that of the previous five-year plan.
- Limits would be placed on the construction of administrative buildings, places of entertainment, and sports buildings.
- Capital investment in the retail trade sector would fall.

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The increases in new fixed investment scheduled for the two major sectors of the economy—industry and agriculture—coupled with increases planned for the railroads and for housing construction more than consume the total targeted increment to overall investment. Consequently, investment allocations to selected industries and some sectors of the economy must have been cut. Among the possibilities are the chemicals, construction, and consumer goods

branches of industry as well as the so-called nonproductive sectors of the economy—science, education, health, and the like. 25X1

Three investment categories in the 1981-85 Plan have become particularly contentious issues:

- Producers versus consumer goods industries.
- Regional priorities.
- The machinery sector's share. 25X1

Controversy over the relative growth of producers goods and consumer goods (Groups A and B, respectively, in Soviet parlance) is as old as the Soviet state. It has taken on a new sense of urgency, however, because of the Polish experience and the possible adverse effect on productivity of failing to meet consumer demands. Several journal articles published during 1981 took the position that not enough resources were being dedicated to consumer goods

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industries. For example, Academician P. N. Fedoseyev, in a *Kommunist* article, lamented the still prevalent view that "the production of capital goods must outstrip that of consumer goods at all times and throughout all stages of the Communist system." Politburo member Chernenko, in his Lenin Day speech in April 1981, argued that the priority growth rate assigned to consumer goods output (Group B industry) in 1981-85 should be considered just a beginning. [redacted]

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Continued reductions in investment growth are intensifying regional competition. The investment squeeze requires more stringent profitability tests as justification for new projects, leaving few opportunities for pork barrel allocations. The directives specifically favor development of the eastern and northern regions of the country at the expense of the European part—the Russian heartland. Although not mentioned in the plan documents, this focus probably will also reduce investment growth in new projects in Central Asia. Brezhnev's Tashkent speech last March, which criticized the use of investment funds by local officials, might be interpreted as a move to head off regional pleas for additional funds. These regional conflicts have been evident in the Politburo. Succession politics typically has given regional leaders more influence on national policy, and contending factions attempt to exploit this situation. [redacted]

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Thirdly, investment growth for the machinery sector is at issue. The plan pledged that this sector would receive "preferential development," but a specific target was not announced. In February 1982 Aganbeyan implied in *Pravda* that the amount was not enough and that planners had failed to comprehend the importance of this sector for growth. He argued that a higher rate of return in the long term would be achieved by shifting investment into machine building and away from such areas as chemicals, metallurgy, timber, coal, and land reclamation. [redacted]

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Consumer Welfare—Protecting Hard-Won Gains

Soviet rhetoric on consumer policy appears encouraging to the consumer:

- The new plan continues the claim of its two predecessors that "ensuring the further growth of the well-being of the Soviet people" is its chief task.

- Brezhnev proclaimed that implementing the Food Program is the "central problem of the whole five-year plan."⁹
- Unlike the previous plan, the output growth of Group B industries (consumer goods) is planned at a slightly faster rate than Group A (producers goods).¹⁰

Actual resources allocated to the consumer effort are uncertain. The available evidence indicates, however, that the leadership has set what might be called a consumption threshold: triggered by circumstances that threaten to push consumption below a certain level or rate of growth, the leadership will take corrective action even if resources for traditionally higher priority sectors must be sacrificed. For example, foreign exchange has been diverted from machinery purchases to agricultural imports in order to keep meat consumption from falling precipitously. Also, as indicated above, investment growth, previously sacrosanct, appears to have taken a backseat this time to consumption in the battle between major resource claimants. The obvious rationale behind this policy is the purported effect of consumer morale on labor productivity and domestic tranquillity. The regime can ill afford to alienate the consumer further at a time when economic growth is already near stagnation and future plans require extraordinarily high rates of labor productivity growth. [redacted]

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The plan directives and related materials indicate that the regime intends to employ a wide range of tactics to keep consumption above this threshold. This course is necessary in order to maintain the delicate balance between boosting consumption enough to stimulate

⁹ See agricultural policy section for a more complete assessment of the Food Program. [redacted]

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¹⁰ The preferential growth of Group B industry should be viewed largely as a symbolic gesture toward the consumer. Continued strong growth of Group A industry, after all, is essential to meeting consumer demands because this sector produces the machinery for the industries that make consumer goods. It must also be remembered that the actual growth rates recorded by Group A and Group B during a five-year planning period more often reflect the fortunes of agriculture than leadership intentions. For example, the faster growth of Group B output relative to that of Group A planned for 1971-75 was reversed in midstream as a direct result of the poor harvest in 1972. [redacted]

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productivity and minimize discontent and keeping consumer expectations from outpacing the economy's potential. The main points of this program are:

- *Heaviest expenditures on improving the food supply.* Recognition that the food supply has a major impact on the individual's sense of well-being has resulted in almost all of the favored consumer areas during 1981-85 falling under the rubric of improving the quality of the diet. Rubles and hard currency alike will be dedicated to this effort.
- *Organizational and management changes in the consumer sector.* Where possible, the leadership hopes that improvements in organization and management can substitute for resource expenditures, exemplified by the new organizational structure proposed in the Food Program. Special food distribution systems also qualify as an organizational solution. The directives specifically call for an expansion of the "network of direct-sales shops" as well as school and workplace lunch programs.
- *Stimulation of the private sector.*¹¹ The directives promise assistance to the private farm from the socialized sector, reinforcing a decree of 1977. In the private housing area, they endorse the construction of co-op apartments and private rural housing and even pledge financial assistance.
- *Campaign to improve morale and communication with the masses.* Although not specifically endorsed in the plan documents, this campaign is an important adjunct to consumer policy during this plan period. It includes increased attention to public opinion polls, sociological research, and letters of complaint to the party bureaucracy as well as tougher actions against crime and corruption.
- *Measures to restrain demand.* Growth in wages and transfer payments during 1981-85 is planned to be the lowest since the advent of the Brezhnev regime. Also, periodic price increases will help absorb excess purchasing power. The directives guarantee only that "the policy toward ensuring the stability of

¹¹ Private activity is permitted in the agricultural, housing, and service sectors. The private agricultural sector has the most impact, supplying more than 25 percent of the country's total farm output, including more than 30 percent of its livestock products. [redacted]

state retail prices for *basic* [emphasis added] food-stuffs and nonfood products will be consistently pursued." [redacted] 25X1

Leadership support for the consumer varies widely. Chernenko has emerged as the Politburo's leading consumer advocate. In addition to strongly supporting the preferential growth of the output of Group B industry and warning of the consequences of ignoring popular demands, he has taken numerous steps to cultivate a "populist" image. He has:

- Launched a broad national campaign for local party organizations to pay increased attention to the concern of citizens expressed in letters and founded a special Central Committee Letters Department.
- Endorsed public opinion polls and sociological research as a tool to enable party leaders to stay in touch with popular attitudes.
- Advocated a broader role for trade unions and local soviets as a means of increasing public participation in government. [redacted] 25X1

Arrayed in apparent opposition to such a proconsumer approach are the leadership's traditional supporters of heavy industry and party ideologues. Kirilenko was typical of the first group, reportedly opposing the creation of the new sociological institute and public opinion research. Party ideologues such as the now deceased Suslov have been traditionally unsympathetic to this cause. Suslov's speech to a major conference on ideology in April 1981 specifically called for fighting "consumerist" attitudes. [redacted] 25X1

A third point of view, possibly represented by a majority of the leadership including Andropov, may not be unsympathetic to the consumer cause but may contend that Chernenko's stance unduly raises consumer expectations. This group may be labeled "realists" because they recognize the legitimacy of consumer demands but at the same time realize that there are good reasons for not meeting them. The military burden is the most frequently cited reason although this may just be a convenient excuse. Premier Tikhonov is a leading proponent of this view. Early this year in a journal article on the five-year plan he specifically recognized that social progress has become "a prerequisite for further economic growth"

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but regretted the need to use consumption funds for defense. Similarly, Deputy Premier V. N. Makayev stated at the ideology conference in April 1981 that the "heavy burden of defense expenditures is preventing us from achieving our goals for the improvement of the people's welfare." In a July *Pravda* article, Central Committee member and *Kommunist* editor R. I. Kosalapov called pointedly for "realistic" economic policies and claimed that a major factor in the Polish situation had been "the completely unsubstantiated and utopian nature" of the Polish economic program. [redacted]

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Economic Reform—Good Intentions but . . .¹²

The draft directives for the 11th Five-Year Plan signal renewed interest in the general area of improving planning and management, including the allied problem of "accelerating technical progress." The plan endorses the last economic reform (mid-1979)¹³ but mainly acknowledges that new ways must be found "to perfect the economic mechanism." Official approval for such a search combined with the continued decline in economic growth has produced the most favorable climate in decades for a frank discussion of reform options. [redacted]

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The draft guidelines devoted a section to the theme of economic reform and to the problem of raising management effectiveness. Such a section appeared for the first time in the draft directives for the 1971-75 Plan but was dropped in the 1976-80 Plan directives as economic reform efforts ran into recurring and formidable implementation problems. Similarly, the treatment of science and technology in the new draft directives indicates that the leadership believes adopting new technology will be crucial to economic progress in the 1980s. The science and technology sections were combined for the first time to reflect the applied aspect and, significantly, this section was placed before rather than after the sections devoted to individual economic sectors. [redacted]

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¹² Details on agricultural reform are discussed in the agricultural policy section. This section concentrates on the issue of reform in general and on nonagricultural reform in particular. [redacted]

¹³ A reform of planning and incentives that includes an attempt to replace the gross value of output indicator ("val") with a net output concept. The "val" had encouraged the overuse of intermediate products, especially ones with high prices. Net output may be roughly defined as gross output less raw materials and related costs. [redacted]

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As an aid to better management, the plan will eventually incorporate special target programs that aim at solving some 15 top-priority economic and social problems.¹⁴ This goal-oriented approach seeks to strengthen the management of key national projects that cut across ministerial lines; they will be administered by a special coordinating unit—probably within the Presidium of the Council of Ministers. Gosplan has been reorganized somewhat to enable it to conduct more comprehensive planning and better policy analysis for the national target programs. Thus far only a few of these programs have gone beyond the draft stage. [redacted]

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Although the plan directives were full of good intentions, they were noncommittal about the specific types of reforms that would logically follow the July 1979 decree on improving planning and the economic mechanism. It was obvious from Brezhnev's speech to the November 1981 plenum, when the plan was approved, that nothing further had been decided on this topic in the interim. He soundly criticized the "slow, halfhearted" implementation of the 1979 decree and admitted that the key had not yet been found to make it "economically advantageous to take on intensive plans, to step up scientific and technological progress, or to improve the quality of output." Accordingly, the Politburo had concluded that "one of the next plenary sessions" should be devoted to this issue. [redacted]

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Policy in this area, then, seems intentionally in the "let 100 flowers bloom" phase, and in this regard, it can be considered a success. The Soviet press has been filled with articles praising reforms in Eastern Europe and recommending the borrowing of ideas even from the United States and from Lenin's New Economic Policy of the early 1920s. The Hungarian reforms in agriculture, credit and finance, and retail trade are a particular favorite. A new council chaired by Gosplan chief Baybakov is to study economic innovations in other socialist countries in order to determine their relevance for the Soviet Union. [redacted]

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Meanwhile, a controversy is building over the virtues of regional planning, probably spurred by the recent endorsement of regional agro-industrial associations in the Brezhnev Food Program. In April 1982 two well-known Soviet writers on economic topics stated their unequivocal opposition to a regional organization of the economy (such as Khrushchev's regional economic councils, known as *sovnarkhozy*). In a *Pravda* article, the economist V. Trapeznikov came out solidly against any disruption of the "branch method" of economic management and claimed that the economy had been severely damaged by the evils of the *sovnarkhozy*. Instead of an organizational restructuring, he called for more attention to revising plan indicators to emphasize quality, the creation of mechanisms to make producers more answerable to consumers, and greater autonomy for plant managers. Sociologist F. Burlatskiy, in a *Novy Mir* article about Chinese reforms that have obvious implications for the Soviet Union, also strongly opposed decentralization on a regional basis and quoted Chinese critics of this position as saying, "This leaves the bureaucratic nature of the system unchanged." He favored greater reliance on economic (as opposed to administrative) measures and greater decentralization in planning and enterprise management. The fact that Burlatskiy was once an aide to Andropov may be of some significance. [redacted]

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Politburo lines are forming on this issue. In a May 1982 *Kommunist* article, Chernenko praised the *rayon* agro-industrial associations (RAPOs) precisely because they disrupt a ministerial autonomy that in his words "eats away like rust at the economic mechanism." He repeated this general theme to a May party plenum in Krasnoyarsk. In a June *Ekonomicheskaya Gazeta* article, Georgian party leader Shevardnadze called for increased attention to "territorial, regional planning and management" and argued that the time is ripe for such action. Politburo members with strong ministerial ties such as Tikhonov, on the other hand, could be expected to favor retaining the present system of organization. Embassy sources in Moscow claim that Moscow-based ministries are feeling threatened already and are using their experience with the *sovnarkhozy* to argue against the RAPOs. [redacted]

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The leadership also has become embroiled over the proper role of the party in economic management. This debate is particularly relevant during the current five-year plan because the target-oriented programs are being pushed by the party, and it appears that the local party apparatus will have representation on the RAPOs. Chernenko and former Politburo member Kirilenko have been the main antagonists on this issue. Kirilenko argued last April in *Kommunist* that the imperatives of technical progress require more integrated policies and more active party intervention in modernizing the economy. In the following issue, however, and in another journal in February, Chernenko accented the need for the party to address the social problems of the technological revolution and pressed for a reduced party managerial role. Party usurpation of economic management, he said "only creates the appearance of strengthening the party's role and, in fact, often does much harm." [redacted]

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The range of leadership opinions on the subject of reform appears much narrower than the press articles. The leaders have never indicated a desire for fundamental systemic change and, indeed, have demonstrated a decided preference for improving bureaucratic centralism (whether functional or regional) and seeking organizational solutions. Other than the natural desire to keep a firm hold on the reins of power, there are good reasons for this predilection—the ever watchful eyes of party ideologues, the powerful government bureaucracy, and a genuine fear of serious disruption to the economy. [redacted]

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Apparently a backlash is already developing within ideologically orthodox circles against the current reformist atmosphere. [redacted] Soviet hardliners are charging that would-be economic reformers are "revisionists" in disguise. The ministerial and planning organs probably would join forces with this opposition as Hungarian-type reforms, for example, would pare their powers considerably. Also, Soviet officials recognize that massive reform would be next to impossible for the huge and complex Soviet economy to absorb without major disruption. As *Kommunist* editor Kosolapov told a US Embassy

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officer, the Hungarian experience merits study but it "may not be applicable to a country as large as the Soviet Union." Indicative of the leadership's caution is the *Pravda* editorial that followed Tikhonov's first visit to Budapest in 1981. It specifically praised the Hungarian system of individual initiative in the service sector and its mix of private and collective agriculture but shied away from mentioning the decentralization aspect of the reforms. [redacted]

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Agriculture—Focus on Food

The agricultural sector continues to occupy a central and favored position in the economy, according to the five-year plan. This sector commands more than one-fourth of total investment resources, and Brezhnev described the task of increasing the food supply as "the most important problem of the five-year plan." The officially proclaimed Food Program¹⁵ unveiled at a May plenum in effect shifts the emphasis to the "agro-industrial complex," which will receive fully one-third of total investment during the period 1981-85.¹⁶ [redacted]

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The relatively consistent support for the agricultural sector apparent since 1965 has been largely due to Brezhnev's personal interest and backing. As he had done in two previous plans (the Eighth and 10th), he attempted to stake an early claim for resource inputs for agriculture during 1981-85. At a special plenum on agriculture in July 1978 he specifically ordered Gosplan not to allocate a smaller share of total investment to this sector during the next five-year plan period, and at another plenum in October 1980 he again pressed for "big capital investments and material resources for agriculture." The plan indicates that his wish was only partially granted. The agricultural sector managed to retain the same share—27 percent—of total investment during 1981-85 as it had in 1976-80, but because of the severe cutback in overall investment growth, agricultural investment is slated to grow by only 2.5 percent annually during 1981-85 (compared with 3 percent during 1976-80 and almost 10 percent during 1971-75). [redacted] 25X1

Because of the smaller growth in plant and equipment and other inputs and prospects for mediocre weather,¹⁷ some change in strategy was required if output and consumption goals were to be met. In an attempt to answer this need, the five-year plan reallocates investment within agriculture and its supporting industries in order to concentrate on increasing farm productivity and cutting waste and losses in transportation, storage, and processing of farm products. The change in the name of the plan directives section usually entitled "The Development of Agriculture" to "The Development of the Agro-Industrial Complex" reflects this expanded view of the problem. Accordingly, priority areas within the agricultural investment category are machinery for livestock feed production, storage facilities for perishable products, facilities for initial processing of output, and equipment to reduce manual labor on the farms. In other branches of the agro-industrial complex, investment in facilities to produce tractors, animal husbandry equipment, and other agricultural machinery will double while investment in industries producing machinery for food processing will triple. In a move to stem the flow of skilled labor to the cities, the plan places heavy emphasis on investment in rural housing, services, and roads. During 1981-85, growth of such "nonproductive" agricultural investment will account for practically all of the growth in total agricultural investment. [redacted]

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The Food Program reemphasizes this same theme—improving the performance of the entire agro-industrial sector—but reinforces it with new organizational measures and financial incentives and extends it all at least through 1990. Agro-industrial coordinating bodies will be created at the national and regional levels. The basic organizational unit, the *rayon* agro-industrial organization (RAPO), will be governed by a

¹⁷ A major impetus to growth in farm output between the early 1960s and the mid-1970s was unusually favorable weather. A review of climatic trends indicates that a return during the 1980s to more normal conditions is likely, which would mean weather less favorable than that of the earlier period but somewhat better than the poor years of 1979-82. [redacted]

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¹⁶ This larger investment category includes gross fixed capital investment both in agriculture and in industrial branches and other sectors that support its development—for example, the agricultural chemicals, tractor, truck, and agricultural machinery industries [redacted]

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25X1 council that has some authority to allocate credit, investment, and other inputs among farms and set output plans and prices—but still within the limits set by the central authorities. [redacted]

clearly defined authority and its domination by old-line government bureaucrats indicate that he had to make significant compromises. Brezhnev's push late in the debate for the approval of the RAPO concept may have been an attempt to make an end run around his opponents' obstruction of such an organization on the national level. [redacted] 25X1

25X1 An incentive package will also be implemented during 1981-85. Farm wages will continue to increase at higher rates than those of other workers, and professionals and specialists will receive additional pay raises and bonuses. Higher procurement prices for most agricultural commodities will go into effect on 1 January 1983. The financial position of farms will also be improved by grants from the state budget to finance investment projects and by writeoffs and deferments of farm debt. [redacted]

The RAPO concept seems to have been approved primarily because of the lobbying efforts of Georgian party chief Shevardnadze and the backing of key party officials in Moscow—Brezhnev, Chernenko, and Mikhail Gorbachev, the party secretary responsible for agriculture. Chernenko is the only Politburo member to have publicly praised the RAPOs before the plenum, and his activities suggest that he is now involved in overseeing their implementation. In sharp contrast, other major leaders have failed even to mention the reorganization aspects of the program in speeches delivered since the plenum. Andropov avoided any mention of the Food Program before he became General Secretary. [redacted] 25X1

Manpower—Making Do With Less

The sharp decline in new additions to the labor force and expected continued low birth rates during the 1980s make the manpower-demographic issue of prime concern to the leadership. The plan documents and accompanying leaders' speeches indicate that the effort already under way to attack the problem in a number of conventional areas will continue. The strategy for 1981-85 includes measures to:

- Entice entrants into the labor force from "marginal" groups (such as pensioners).¹⁸
- Decrease the demand for labor (such as placing arbitrary ceilings on the number of workers in certain sectors).
- Improve the efficiency and allocation of labor (such as tying wages closer to productivity and making better use of trained specialists).

¹⁸ There is also a campaign to further raise the labor force participation rate of able-bodied females (age 16 to 54). Because the current rate is at an alltime high and nearly the same as for males, little expansion is possible. [redacted] 25X1

25X1 The policy over the past 15 years of pouring money into the agricultural sector has been controversial. In his plenum speech of October 1976 outlining the new 1976-80 Plan, Brezhnev acknowledged that the sum allotted for agricultural investment was "frankly . . . not easy to find . . . we had to somewhat curtail the demands of other branches of the economy." Indicating that the task of fighting off competing claimants was just as difficult in the 1980s, Brezhnev, in his May 1982 plenum speech, felt the need to reassure the military lobby that the new Food Program would not affect current Soviet defense and foreign policies. He even used national security as a justification for the agricultural appropriations, promising that the program will put the Soviet Union "beyond the reach of chance" and reduce future dependence on food imports from "capitalist states." [redacted]

25X1 The issue of agricultural organization has proved particularly contentious. Since 1972 Brezhnev had advocated agro-industrial reorganization through the establishment of superministerial coordinating bodies to overcome branch (ministerial) departmentalism. When announcing the Politburo's decision to draw up the Food Program in October 1980, he emphasized that the agro-industrial complex "must be planned, financed, and managed as a single whole." His proposals clearly ran into resistance since debate over what form the reorganization should take and general foot-dragging by the branch ministries delayed unveiling the program for more than a year. While Brezhnev did get his coordinating center, its lack of

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Only a limited number of measures will be taken in three policy areas that would have a longer run impact but potentially bigger payoffs:

- Automation and mechanization.
- Regional shifts of investment and/or labor.
- Increasing the birth rate in the European parts of the country. [redacted]

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Brezhnev himself noted at the Party Congress in 1981 that the contemplated actions in the labor field were "clearly not enough. The root of the evil is the slow reduction of manual labor." He ordered Gosplan and the State Committee for Science and Technology to speed up the drafting of the target-oriented program for reducing manual labor. Implementing this directive, however, is not likely to bear much fruit within the current planning period. Increased automation would require an acceleration in investment in modern machinery and equipment. As noted in the investment section of this paper, the prominent economist Aganbegyan apparently has doubts about the adequacy of this sector's investment allocation during 1981-85. Moreover, the shortage of hard currency during the plan period and the unsettled state of East-West relations will diminish the USSR's ability to obtain the latest machinery and technology from the West.

Expanded investment in Central Asia and other labor-surplus areas would result in a better use of the existing distribution of the work force. The 1981-85 Plan does schedule several labor-intensive projects for Central Asia, primarily in the light and food industries. Brezhnev, in his March speech in Tashkent, also noted the correctness of the policy of constructing new industries in Central Asia and drawing upon the rural labor surplus. The specific priority given by the plan directives to investment in the eastern and northern parts of the country and the generally tight competition for investment funds during the 1980s, however, guarantee that all-out implementation of this solution to the labor shortage is not contemplated. The leadership has decided, moreover, largely to ignore the politically charged issue of migration from Central Asia to labor-deficit areas during this plan period. Migration will continue to be encouraged but not forced. This passive approach was evident in Brezhnev's remarks to the Uzbek party faithful as he merely juxtaposed the two ideas: "It is no secret that

in the republic there is still a labor surplus" and "a shortage of manpower is being felt in our country with special urgency in all parts of western Siberia and the Far East. . . ." [redacted]

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The plan directives promise that "an effective demographic policy is to be implemented" and suggest that this means measures to increase the birth rate. According to the plan, however, implementation will be slow—first because of the enormous costs of developing the necessary infrastructure¹⁹ and secondly because of political sensitivity over whether to adopt a uniform policy or one differentiated by region. The reports by Brezhnev and Tikhonov at the 26th Party Congress seem to endorse the regional approach. Their proposals—which call for lump-sum grants for first, second, and third births and yearlong partially paid maternity leave granted working mothers for each birth—will be introduced gradually, first in the Soviet Far East and Siberia. These are predominantly Slavic regions characterized by low fertility and high female employment. A desire to rush into this new policy will be tempered by the knowledge that a successful pronatalist campaign would mean at least the temporary withdrawal of more women from the labor force. Even if successful, moreover, such efforts to increase the birth rate will not have the intended impact on the economy until the end of the century.

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The leadership's views on most of these labor issues, even the controversial demographic decision to follow a differentiated pronatalist policy, are not known. On the issue of regional investment priorities, Chernenko might be expected to side with his Central Asian friends in arguing the need for channeling more resources to this area. Tikhonov probably would focus on Siberia's priority needs. [redacted]

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East-West Trade—Reduced Expectations

The small role accorded East-West trade in the plan directives of December 1980 reflected the fact that Western economic sanctions were entering their second year. The lack of a target for foreign trade

¹⁹Includes expanded day-care facilities, increased housing, improved social amenities, and consumer services. [redacted]

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turnover—a departure from previous practice—underlined the uncertainty among Soviet planners and policymakers about what role to assign to the West. In their speeches, the leaders blamed the ebb in East-West trade on others and left the door cautiously open for improved relations. [redacted]

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The draft guidelines anticipated trade only “with those developed capitalist countries that show an interest in cooperation with the Soviet Union.” Such language echoed the subdued expectations of the 1971-75 Plan directives that also recognized that not all Western countries displayed a “readiness” to trade extensively with the USSR. This was in sharp contrast with the bullish trade prospects contained in the 1976-80 plan draft guidelines. [redacted]

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The pessimistic language in the draft directives was aimed primarily at trade with the United States. At the October 1980 meeting of the Supreme Soviet, Gosplan Chairman Baybakov deliberately omitted the United States from a list of Western countries targeted for product buy-back agreements. Premier Tikhonov in his speech at the 1981 Party Congress specifically argued that it was not the Soviet Union's fault that trade with the United States had decreased but rather that of the United States because it was using trade for improper political purposes. He concluded, however, that Moscow stood ready to develop economic relations with the United States “on an equitable and mutually advantageous basis.” Baybakov repeated this formulation at the Supreme Soviet session in November 1981. He also announced the previously missing five-year goal for trade turnover, signaling that the Soviets had decided that there would be a decline in East-West trade. During 1981-85 the USSR would concentrate a greater share of its total trade volume on socialist countries; the volume of trade with non-Communist countries would grow only about 2.5 percent a year compared with just over 5 percent in 1976-80. [redacted]

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The change in Western, mainly United States, attitudes to East-West trade may not have been the only factor in the Kremlin's more subdued attitude. After Western trade sanctions were implemented, Soviet officials began to express a new determination to wean their economy away from major dependence on

the West for technology or grain. Moreover, in conversations with Westerners, Soviets have frequently registered disappointment over the contribution of imported technology to industrial output. Some sectors have experienced difficulties in absorbing the new technology, and, even in those areas where Western technology clearly helped, the diffusion to Soviet-designed and equipped plants has been minimal. The leadership seems increasingly aware that importing foreign technology is not a panacea for the economy; the plan directives give renewed emphasis to improving the performance of the domestic R&D sector and strengthening its ties with the producing sectors. [redacted]

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There have been noticeable differences among the leaders both in the extent of their support for Brezhnev's detente policy and their reaction to the cooling of East-West trade relations. Brezhnev made detente a cornerstone of his foreign policy. Chernenko has been an enthusiastic supporter. Andropov also has been supportive of Brezhnev's detente strategy. Indicative of some Politburo resistance, Kirilenko had always been equivocal on this issue, coupling even his most positive statements on detente with warnings about the unchanging nature of US “imperialism.” [redacted]

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In general, Politburo enthusiasm for the pursuit of improved Soviet-US relations waned after the US Congress passed the Jackson-Vanik amendment in 1974 and even more so after Washington's reaction to the Soviet invasion of Afghanistan. Although most in the leadership probably believe that the five-year plan's deemphasis on East-West trade is justified, various shades of opinion over the chances for improved Soviet-US relations are still discernible. Brezhnev adopted a pessimistic tone in his speech to the party congress last year, and First Deputy Defense Minister Ogarkov followed suit in his recent book, opining that the United States will pursue a policy of confrontation for the foreseeable future. Kirilenko's recent statements are representative of one faction that believes Moscow should be shifting its focus to Western Europe “where by no means everyone is disposed to take the path of Washington's imposed adventure.” Chernenko has been far more enthusiastic in his support of improved relations with

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the West, particularly the United States. In a round of leadership speeches in 1980, he seemed to be the leader most concerned about the freeze in relations with the West following the invasion of Afghanistan.

The Brezhnev Leadership's Approach to Economic Decisionmaking

The economic policies embodied in the five-year plan reveal much about the Brezhnev leadership's approach to solving economic problems. They suggest that the leadership made its economic decisions according to a certain mind-set—a set of precepts that in effect circumscribed its policy options. Some were the natural outgrowth of consensus-style politics; others flowed from the backgrounds and expertise of this particular mix of policymakers; still others reflected the leadership's perceptions of the peculiar combination of economic problems to be faced in the 1980s.

Short-Term Perspective

The Brezhnev leadership seemed strongly inclined to mortgage the future for results today. The most central decisions of the five-year plan—those that are related to investment—reveal this bias. The sharp slowdown in investment growth was taken despite the leaders' certain knowledge that their efforts to improve capital productivity had little chance for success. Their primary concern seemed to be the satisfaction of the immediate demands of the defense sector and possibly of consumption. Even long-term effects on these preferred claimants were given secondary consideration; a continued decline in investment growth would ultimately affect growth potential in both areas.

Within the investment sector, the apparent decision to boost investment growth more in *machinery-using* sectors than in *machine-building* sectors, as implied by Aganbegyan's recent *Pravda* article, also reflects this preference for immediate gain. He proposed shifting investment into expanding capacity for new machinery and away from continued boosts in outlays for dated equipment in such sectors as chemicals, metallurgy, timber, coal, and land reclamation. This

strategy in effect would postpone short-term gains in order to achieve a higher rate of return in the long run.

An almost too obvious explanation for this mind-set lay in the advanced age of the leaders. They preferred immediate results and were anxious to halt the continued decline in economic growth in the remaining years of their tenure. They also may have thought that some major economic problems of the 1980s would be temporary. Soviet economic spokesmen have admitted to Westerners that this decade will be difficult but have asserted that the 1990s promise some relief. The decline in increments to the labor force, in fact, will bottom out by then, and in the energy sector, the Soviets probably are counting on large new discoveries of oil as well as alternative energy sources coming on stream. The leaders might have believed, therefore, that they or their successors could eventually make up for the policies that focused on short-term gains that they chose to pursue in this decade.

Preference for Administrative Solutions

Because of the obvious implications for the retention of central control, Soviet leaders have always had a deep distrust of relying on the invisible hand of the marketplace to motivate the basic economic unit—the factory or farm. They have preferred to retain the power to influence directly the smallest economic decision. As a result, attempts to improve economic efficiency have often taken the form of redrawing organizational lines and “perfecting management” rather than allowing more freedom at the enterprise level. The Brezhnev leadership was no exception. The plan directives illustrate that such administrative solutions were favored in almost every policy area, typified by the bureaucratic approach of the target-oriented programs.

The most recent example of this tendency is the Food Program. During its drafting, press articles by some Soviet economists indicated that it might incorporate reforms in planning and pricing that would give

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greater autonomy to the farms. They cited the example of Hungary where the procurement system has been scrapped and market prices guide the output plans in both the large collective farms and the small private holdings. Instead, the program took quite another course. The rigid system of state-controlled procurement prices was maintained, and what amounts to a new administrative layer was added at every level from the ministry down to the *rayon* to "coordinate" the work of the agro-industrial complex.

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Historically, increased party participation in economic affairs has often been a corollary to the principle of dependence on administrative solutions. Indeed, the party is taking the lead in promoting the target-oriented approach to managing key national projects, and party representatives will serve on the agro-industrial associations. The Politburo, however, as discussed earlier in this paper, appeared divided in its support for increased party intervention at this juncture of economic development.

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Incrementalism

Sharp departures from past experience with little or no warning were rare occurrences in the formulation of economic policy under Brezhnev. Prospective changes were usually discussed at length in the press, talked about by members of the leadership, and in many cases, tried experimentally before being endorsed for general use. This procedure had the advantage of making such policies appear as the considered result of a consensus and making individual leaders who pushed them less susceptible to charges of supporting "harebrained" proposals of the Khrushchev variety. Also, gradual implementation was less likely to be disruptive to production schedules, a persuasive reason for caution when growth was already so low.

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Reforms under way in both the industrial and agricultural sectors conform to this process. One of the main features of the mid-1979 reform in planning and management was to be the replacement of the gross value of output indicator with net output. It had been debated for years prior to that and is now being

implemented only gradually. In fact, Brezhnev complained at the November 1981 plenum that the pace has been too slow. The new management structure created as part of the Food Program can also be viewed as part of a continuum. Agro-industrial coordinating bodies at the *rayon* and republic levels have been tried experimentally in several republics since the mid-1970s.

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Balanced but Restrained Use of the Carrot and Stick

The policies chosen for the current planning period are a narrow but fairly even mix of those that offer a "carrot" and those that threaten the use of the "stick." The even mix probably reflected the complexion of the Brezhnev leadership, a fairly divergent group despite the narrow range of acceptable views that ordinarily define a Soviet leader. The conservative nature of the leadership, as well as the economic milieu of recent years, however, ensured that the actual range of policies chosen would be narrow. That is, previous allocation decisions and poor economic prospects largely prevented the lavish use of the carrot while the leadership's tendency to eschew, for whatever reasons, the harsh tactics of the Stalin era held a rein on the stick.

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The leadership also apparently believed that the average citizen could still be motivated by nonmaterial means to work harder. Perhaps the fact that most of the aged leaders could recall true revolutionary zeal from firsthand experience prevented their seeing the pervasive cynicism of the current generation of workers.

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Consumer policy illustrates these points. The range of leadership views on the subject was wide—represented at one end of the spectrum by the now deceased Suslov, the hard-nosed ideologue ever vigilant against "consumerism," and at the other end by Chernenko, an active lobbyist for consumer interests. Neither of these extremes is reflected in actual policy, however. The collective decision has been to try to strike a happy medium—strive to meet the most important consumer demands but at the same time tie rewards

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more closely to performance. Meanwhile, various efforts have been made to improve worker-consumer morale and motivation. These include the Chernenko-inspired programs for more public opinion polls and closer attention to letters of complaint. A new wave of anti-Americanism combined with alarmism over the military threat posed by the West has also been used to convince the consumer that sacrifices must be made. [redacted]

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Untouchables

The Brezhnev leadership apparently regarded some policy areas as largely immune to budget cuts or revision. This resulted from protection by strong vested interests and/or the fear of dire domestic or foreign consequences if changes were made. In effect, the preservation of untouchable areas limited policy options considerably and guaranteed that future changes in these areas would be even more traumatic. Three major areas fall under this category: defense spending, consumer prices, and agricultural investment. [redacted]

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The Brezhnev regime was consistent in its commitment to the Soviet defense effort. Since 1965 the growth in defense spending has averaged about 4 percent a year even as overall economic growth has declined. Moreover, on the basis of observed military activity, Soviet defense spending will continue to grow through at least 1985. [redacted]

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The price level of basic foodstuffs—for example, bread, milk, and meat in state stores—remained stable throughout the Brezhnev years supported by a rapid growth of subsidies. The 1981-85 plan directives called for a 30-percent increase in subsidies, and the new Food Program piles additional increases of 10 to 15 percent on top of that. The plan directives' pledge to continue this retail price policy has been reinforced by repeated assurances from planning officials. [redacted]

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The commitment to agriculture has also remained fairly steady since 1965, despite the admitted difficulties of finding the necessary resources. Although Brezhnev was its main supporter, the majority of the leadership apparently was convinced that the share of resources allocated to agriculture, despite the heavy burden, could not be reduced without risking the gains already achieved. [redacted]

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A New Leadership's Impact on Principles and Policies

Change in Approach to Economic Decisionmaking

The approach to decisionmaking apparent in the 1981-85 Plan reflected the Brezhnev regime's particular style as well as its basic belief in the manageability of the economy's problems. Both of these factors are subject to major change now with the end of the Brezhnev era. The power balance within the Politburo is substantially altered with Brezhnev gone. The transition period, in addition, will create a highly charged political environment that will enliven the political process and may open the way for change. The new leaders' perception of the Soviet economic predicament may also change if, as we believe likely, their efforts to increase productivity are ineffective. The combination of these factors argues for the following changes in the decisionmaking process. [redacted]

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Short-Term Perspective. Brezhnev's immediate heirs have already been important participants in the economic decisionmaking process, but they may acquire a somewhat longer time horizon now that they are in charge. First, their chronological age is somewhat younger,²⁰ and their collective mental vigor has improved substantially because they no longer have to allow for Brezhnev's impaired cognitive abilities.

These factors combined with a distinct sense of the beginning of a new leadership may result in a willingness to be more forward looking. Secondly, it may become apparent that there are relatively few opportunities for quick fixes and, indeed, the shortsighted policies of the Brezhnev era may begin to compound the already serious economic problems. Lastly, it seems likely that they will foresee that the economic difficulties of the current decade will spill over into the 1990s, making it increasingly difficult to postpone hard decisions of the 1980s. [redacted]

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The group that will follow the Andropov leadership should have an even greater incentive to take the long view. Because they will be younger still, they could

²⁰ The average age of the leadership group that would have been the major force behind the 1981-85 Plan—Brezhnev, Kosygin, Suslov, Chernenko, Ustinov, and Kirilenko—was 74 in 1980. The new group—Andropov, Chernenko, Tikhonov, Ustinov, Gorbachev, and Aliyev—has an average age of 67 in 1982. [redacted]

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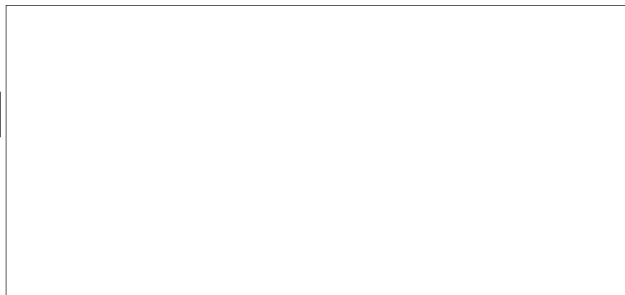
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25X1 expect to reap the benefits of policies that have longer payoff periods and, conversely, the whirlwind of policies that concentrate only on short-term results. [redacted]

Administrative Solutions. The lifelong accumulation of power necessary to achieve leadership status seems to us inconsistent with a willingness to begin a devolution of economic power once on top. Such a move would be a fundamental change in the Stalinist economic order of the last 50 years. Moreover, it is likely that the new leaders will view the existing structure of power as a systemic strength. Therefore, no matter what the political shading of the current and next generation of Soviet leaders, they probably will continue to favor bureaucratic centralism and seek organizational solutions rather than moving voluntarily toward fundamental systemic change. Indeed, they may well believe that stringent economic circumstances argue for ever tighter administrative control. [redacted]

25X1 **Incrementalism.** Because it usually takes some time for one individual to consolidate power, major new programs probably will continue to be thoroughly discussed, debated, and tested before being adopted. Indeed, Andropov stressed caution in economic reform in his recent plenum speech. The new leaders will be especially sensitive to the fact that severe disruption of the economic system by the implementation of ill-conceived policies might be a quick route to political demise. [redacted]

25X1 **Balanced Use of Carrot and Stick.** A relatively strong case can be made that the new leadership will lean toward harder line, authoritarian measures. These leaders—because of the economic situation and their own personalities—will rely more on tightened discipline and control to effect economic policy than on coaxing the desired behavior through increased incentives. The more urgent nature of the economic dilemma as the decade progresses will prevent the more lavish use of the carrot and may well be used to justify harsher actions. The budding anticorruption campaign and the summary firing of the Minister of Railways in November may be early evidence of such a policy shift. Moreover, there is considerable evidence that the Soviet people, who are facing unsettling economic and social problems, are ready for a leader who would demand greater discipline. [redacted]



The important points about the new leadership are that:

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- Andropov's long tenure in the KGB has given him experience in using administrative measures to modify behavior. [redacted]

[redacted] In his statements since becoming General Secretary, the need for increased discipline has figured prominently.

- The leader with the most "permissive" image, Chernenko, appears to hold views somewhat beyond the current Politburo consensus, and he was unable to gain sufficient support within the leadership to claim Brezhnev's job.
- The loss of Brezhnev—who seemed most responsible for the even mix of policies through his middle-of-the-road style—may make it easier for the scales to be tipped toward a harder line. [redacted] 25X1

This trend, however, would not rule out a mix of liberal and authoritarian policies. Greater dependence on the private sector is a distinct possibility—a policy that could easily be classified as "liberal." Neither would this general preference for a harder line qualify as neo-Stalinism. A stricter manpower policy, for example, might be expected to include harsh nationwide penalties directed at both managers and workers for such offenses as high labor turnover but would probably not embrace measures such as the forced transfer of Central Asians to Siberia. [redacted] 25X1

Untouchables. The untouchables of one leadership are often the repudiated policies of the next. Brezhnev and his colleagues, for example, in the mid-1960s

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dismantled Khrushchev's *sovnarkhoz* system and some of his pet farm programs. Policies closely associated with former leaders are particularly vulnerable when a new leadership takes power during a time of economic difficulties. We can expect the new leaders to try to project an image of a fresh start; in so doing they might find it propitious to shed some policies that had become particularly burdensome. [redacted]

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Change in Policies

The new leaders will surely bring changes in economic policy. But what kind and how extensive? Answers are necessarily speculative, but the range of policy options available to them is not limitless. They will have to chart a course within definite institutional and political constraints, and the possible changes in their approach to decisionmaking discussed in the preceding section further narrow these choices. This section discusses likely changes in the seven major policy areas outlined for the 1981-85 Plan. The new leaders may make some midcourse corrections in the current plan. However, because they have laid particular stress on continuity and because it may take some time to develop a strong consensus, it is more likely that the full impact of the leadership's new policy lines will await the drafting of the 1986-90 Plan. [redacted]

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Major Claimants. The hardest policy decision for the Andropov leadership will be resource allocation among the basic claimants. We estimate that economic growth through the mid-1980s will average less than 2 percent per year and will hover near 1 percent for the remainder of the decade. This growth rate ensures continued fierce competition for resources, and this time around there will be fewer options. A decision to maintain growth in defense spending at the historic rate would give this claimant an even larger share of national income, squeezing investment and consumption further. If investment growth remained at its present rate, for example, an absolute decline in consumption might result. [redacted]

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The new leadership, therefore, will feel greater pressure to reduce the growth rate of defense expenditures as the decade progresses. The Soviet economy appears to have the technical capacity to accommodate a resource shift from arms production to civilian end

uses in a reasonable period of time.²¹ Capacity currently used in armored vehicle and tank production, for example, could be converted in roughly a year to support increased production of a broad range of civilian vehicles—for example, railway rolling stock, tractors, trucks, and construction equipment. [redacted]

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If the growth of weapons production is reduced, the leadership must decide whether to direct these released resources immediately to the consumer or to the production of new investment goods. Choosing the investment option would increase economic capacity so that in later periods more consumer goods (or possibly defense goods) would be available. Within the investment category, moreover, the leadership would have to choose between developing the Soviet industrial base (heavy industry) and the consumer-related sectors—agriculture, processed foods, and soft goods—another issue of current versus deferred consumption. [redacted]

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The most immediate impact of a resource shift would be the alleviation of bottlenecks in such critical economic sectors as energy, agriculture, and transportation. The resources most readily transferable—high-quality steels, construction materials, chemicals, and fuels—are the very ones needed for this purpose. A resource transfer could stimulate lagging factor productivity and improve the current slow rate of innovation and technological change. Modernization could also be enhanced if released resources went into exports, which in turn would enable the Soviets to increase their hard currency purchases of certain Western equipment and technology. [redacted]

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Several additional factors argue for a decision by the new leaders to reduce the growth in defense spending somewhat. Possessing a longer time horizon, they would seem to be in a better position to recognize the consequences of a further slowdown in investment growth and a possible decline in consumption. While risky politically for a new leadership, a decision to

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slow the growth of defense spending would have a better chance of implementation if the leaders perceive that such a slowdown would have little impact on military capabilities during this decade. Given the long leadtimes involved in military programs, Soviet weapons that will be in the field through the 1980s will consist primarily of systems already in the forces as well as those now entering production and the late stages of development. Even if annual defense outlays level off (zero growth), the impact would probably be felt only in the next decade. An added fillip would be a real rapprochement with China that might lessen military requirements. [redacted]

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The institutional and political barriers to a decision to slow the growth in defense spending should not be minimized, however. Proposed resource shifts from the military to the civilian sector would be strongly debated by the military establishment, which would be most concerned about the loss of weaponry that would ensue from the shift. On 27 October 1982 Brezhnev spoke to an extraordinary gathering of top military officers that suggested concern already about the adequacy of resource allocations to the defense sector. The strength of feeling on the part of the military to "get their due" is exemplified in Marshal Ogarkov's assertive statements. Defense Minister Ustinov's apparent strength in the Andropov leadership would also be a restraining factor, at least in the short run. Moreover, the very structure of Soviet defense planning and production contributes heavily to the momentum of defense spending in the USSR and makes any shift of resources out of the defense sector more difficult than would be the case in a market economy. The entire Soviet system—with its five-year plans, comprehensive resource-allocation process, and command economy—is designed and managed by the government to provide a high priority to defense production. [redacted]

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In any case, such a decision probably could not be implemented until the next five-year plan (1986-90). We know from historical precedent that the Soviets are already well into the next planning cycle; a key year for defense strategy will be 1983 when a threat assessment will be completed to be subsequently matched with military plans and capabilities. [redacted]

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Investment. The new leaders might choose to re-arrange investment priorities. This would result from a reshuffling of functional responsibilities and alliances and also their presumably different approach to economic decisionmaking, in particular their greater willingness to implement policies that take longer to bring about results. First of all, energy would seem a likely area to retain its preeminence because of its impact on future economic growth and foreign exchange earnings. A strong candidate to receive a larger share of investment funds would be the machine-building sector—because of the need to replace dated models with those embodying the latest technology, as Aganbegyan urged, and also because of the likelihood of continued problems in importing foreign machinery and technology. Moreover, those who reluctantly agreed to a slowdown in the growth of defense spending might be particularly anxious that some of these funds be diverted to machine building as a second-best recipient and as one that might help reduce industrial bottlenecks and ultimately enhance military production. [redacted]

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Other sectors—transportation and ferrous and non-ferrous metallurgy—might also benefit from a reassessment of investment priorities. As Brezhnev told a military audience in October, these sectors have become serious bottlenecks. A long-term commitment would be necessary here to expand capacity and introduce more technologically advanced equipment. A leadership with a longer time horizon might be more prone to launch such an effort. In order for these sectors to receive a larger share, others must be sacrificed. [redacted]

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Consumption. Unlike its two predecessors, the new leadership will not have the luxury of courting popular support by providing a substantial boost in goods and services. Faced with possible stagnation in consumption by mid-decade, it must contain consumer discontent while devising a way to motivate the worker to be more productive. A new leadership prone to authoritarian solutions, coupled with stringent economic conditions, is likely to be more coldly pragmatic in its consumer policy. The leadership probably will remain

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committed to maintaining some forward momentum in selected areas of consumption—particularly for food—to keep discontent at a minimum. Beyond this point, however, material rewards may be highly differentiated according to the individual's contribution to the economy, and individual initiative may be rewarded in the private as well as the socialized sector. In this way, the actual boost in productivity could be much larger than the increment in resources committed by the state to the consumer effort. [redacted]

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Specific measures might be to:

- Tie wages and “perks” even more closely to production results. The most generous food distribution programs, for example, could be targeted at those factories that promise the largest boost in productivity and relief from industrial bottlenecks.
- Raise consumer prices on all but essential goods and services, thereby ensuring that there would be something left to buy for those rewarded with higher wages. Informed Soviets are already saying publicly that prices on basic foodstuffs (bread, potatoes, and milk) will remain stable, but “quality improvements” will justify raising prices on all other foods.
- Expand the private sector in consumer services—allowed by the new Constitution (1978) and a relatively costless way for the state to relieve a particularly irksome consumer area. A recent press article urged that the Riga experience—permitting privately run restaurants—should be expanded to “many other personal services and enterprises (shoes, clothing, appliance repair, and others) in all regions of the country.” [redacted]

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Economic Reform. The new leadership's predilection for administrative solutions and bureaucratic centralism would severely limit the extent and direction of future economic reforms. Continued attempts to improve management systems and perfect economic indicators and incentives will clearly be acceptable, but a radical reform—one that would abolish obligatory plan instructions and administrative supply allocations and rely instead on supply and demand, operating through flexible domestic prices—would likely be deemed too risky. Transition to such a system of “market socialism” probably would result in

serious economic difficulties in the short run, including inflation and unemployment, and rupture existing fabrics of political and economic power.²² Hungary's problems with its New Economic Mechanism (NEM) in the mid-1970s reinforced the Brezhnev regime's conservative inclinations against internal economic reform and heightened its misgivings about radical decentralization. The Andropov leadership no doubt will closely monitor the results of the resurrected reform program launched in Hungary over the last several years. [redacted]

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In his first economic pronouncement since becoming General Secretary, Andropov adopted a cautious stance on reform. While he favored extending the independence of associations, enterprises, and collective and state farms, he warned that “it is necessary to act with caution here, to conduct experiments if need be, to make appraisals, and to take account of the experience of fraternal countries.” In a December *Trud* article, economist Aganbegyan was extremely timid in his prescriptions for improving incentives in Soviet industry, perhaps indicative of signals he is getting on the new leadership's future position on this issue. He proposed the adoption of the “payment by results” system in industry and the expanded use of private initiative in the service sector—both previously discussed and already being tried experimentally. Yet, he felt it necessary to go out of his way to justify their use in a socialist country. [redacted]

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Some shift to a more regionally organized economy might also be safely tried. Such a move would give the appearance of a bold and sweeping reform but would actually “leave the bureaucratic nature of the system unchanged,” as Burlatskiy astutely observed (see p. 9). The leadership might believe, however, that major benefits would initially flow from the reform's granting of temporary freedom from the parochialism rampant in the ministerial bureaucracy. Moreover, a territorial approach might be thought more suitable to today's economic problems—for example, exploitation

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of raw materials in Siberia.²³ Finally, growing pressure by regional interests in the Politburo might make the change attractive. [redacted]

Higher retail prices would lower the agricultural subsidy bill,²⁴ which threatens to approach the size of the defense budget by 1985. [redacted] 25X1

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Agriculture. Because allocations to agriculture have depended on Brezhnev's strong political backing, policy toward this sector is likely to be one of the first to come under review. The extension of the Food Program through 1990 does not in itself protect this sector from predators. Indeed, the fact that the program may take three to four years to show results makes it particularly vulnerable. [redacted]

Labor. A new leadership weighted more heavily with hardliners might be expected to endorse the policy line of the Brezhnev leadership toward short-run labor problems: that is, favoring tighter discipline for the individual worker as well as for the enterprise manager. The more crucial question, however, is what steps the new leadership will take in the three policy areas that promise longer run and bigger payoffs—automation, regional shifts of investment and/or labor, and increasing the birth rate. Possible policy shifts already mentioned in other areas would seem to promote greater automation—the larger share of national income dedicated to investment and the larger share of investment devoted to machine building. Although still constrained by low investment growth, these shifts in policy would at least be moving toward solving what Brezhnev called the root of the labor problem—"slow reduction of manual labor." [redacted]

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Nevertheless, the new leaders will understand that continued support of the agricultural sector is essential to the economic and political health of the country—to domestic productivity and tranquillity as well as to the foreign trade balance. They might decide, however, that results in the long run would be better if investment inside the farm gate is cut in favor of the industries that support agriculture. The Food Program already does this to some degree, but an actual reduction in the share that Brezhnev worked so hard to preserve would be a much stronger signal of the new leaders' intent and would have the added advantage of distinguishing their agricultural policy from that of their predecessors. This would have particular appeal to those in the Politburo who had always favored heavy industry and would placate those who believed, like Aganbegyan, that machine building should receive additional resources. (Aganbegyan suggested, in fact, that investment in land reclamation was one area that could be sacrificed.) Cutbacks in the growth of such programs would not seem to jeopardize near-term food output. Consensus for this investment shift would be easier to obtain if the agricultural sector was blessed with good weather for the next several years. [redacted]

The other two areas touch on regional sensitivities, and strong decisions here would depend on stringent economic circumstances providing the justification for policies that at least temporarily favor the labor-deficit regions. For example, the continued need for investment in Siberia would preclude the development of major industrial centers in Central Asia that could make use of the labor surplus. More money, however, might be poured into developing the social and cultural infrastructure in the labor-deficit regions in order to attract emigrants from labor-surplus areas. According to a recent article by the late demographer B. Ts. Uralnis and labor economist G. I. Litvinova, this would not require a fresh injection of funds but would largely entail a juggling of resources between regions. They note that in the past, budget and tax policies transferred resources from labor-deficit regions to labor-surplus areas for the express purpose of infrastructure development. Now they advocate a reversal of these transfer payments. They point out, in

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The possible move to raise food prices may well receive strong support from the group that always had grave reservations about the agricultural burden.

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²³ Territorial production complexes (TPKs)—major regional development projects planned and developed as integrated units—that cut across ministerial lines are already being pushed. Eight projects have received TPK status in the 1981-85 Plan. [redacted]

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²⁴ Subsidies to cover the differences between prices paid to farms and those charged to consumers were 33 billion rubles in 1981. [redacted]

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addition, that only a significant improvement in social infrastructure will increase the birth rate. Their recommended shift of funds, therefore, would not only redirect migration but also serve to reinforce the regionally differentiated pronatalist policy already begun by the current leadership. [redacted]

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Impact of Changes

These changes in approach and policies will not be a panacea for the Soviet economy's ills. Specifically, growth rates cannot be expected to return to those of the 1950s or even the 1970s, nor will there be a substantial improvement in the ability to master the requirements of intensive growth. Nevertheless, the changed policies could bring marginal improvements in key areas and allow the new leadership to continue to muddle through even in the face of economic conditions probably worse than they had expected. [redacted]

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East-West Trade. Possible changes in domestic policy discussed in this paper and the continued decline in economic growth seem to argue for a new leadership's interest in maintaining good relations with the West in general and East-West trade relations in particular. First, a decision to reduce the growth of defense spending would be consistent with efforts to improve dialogue with the United States and to pursue arms limitation agreements that might constrain Western programs. The possible decision to raise investment growth and to dedicate more capital resources to the machine-building sector might also boost interest in importing foreign machinery and technology. Continued imports of grain and meat seem necessary to maintain the consumer threshold for food, barring a miraculous recovery in the agricultural sector. Moreover, since Moscow's current major hard currency earner, oil exports, probably will not be as lucrative in the foreseeable future, new hard currency markets or exports must be cultivated. The success of the new gas pipeline to Western Europe, for example, depends on maintaining good relations with these countries. [redacted]

Of primary importance to the new leaders, these policies would not require the surrender of power and would continue to allow them the freedom to impose their will on the smallest economic or administrative unit. In this way, they could feel assured of their ability to handle such problems as public unrest, external economic or military threats, or internal disasters that would require an emergency redistribution of resources. [redacted]

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The implications for US-USSR relations may not be equally sanguine, however. Although of necessity Moscow must improve relations with the United States to come to some agreement on arms control, the leadership may not believe that the benefits of US-Soviet trade are that large. The Soviets put great store in reliability and dependability, and their doubts about the United States on this score may outweigh the purely economic and technical benefits that might accrue. In addition, they may choose to continue driving a wedge between the United States and its allies by maintaining a differentiated trade policy. [redacted]

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