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# Soviet Economic Reform: Status and Prospects

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An Intelligence Assessment

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# **Soviet Economic Reform: Status and Prospects**

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**An Intelligence Assessment**

This paper was prepared by [redacted]  
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**Key Judgments**

*Information available  
as of 1 January 1985  
was used in this report.*

The Chernenko regime has inherited some recent modest economic reforms along with longstanding obstacles to major change in the economic system. Analysis of this legacy and of the current leadership's economic views suggests that:

- The Soviets are likely to continue efforts started under Yuriy Andropov to improve the system of economic incentives and performance indicators—measures that offer some hope of economic benefit with minimum disruption to present lines of authority.
- New initiatives are most likely in the area of organizational reform—to streamline the ministerial bureaucracy and restructure it to better deal with regional or cross-ministerial issues.
- The leadership will not countenance more radical measures that move toward market socialism, such as Hungarian-style economic decentralization.

The economic impact of these modest reforms is likely to be small, because they will not touch basic systemic flaws, such as insufficient consumer input into production decisions.

The leadership apparently believes that the system is fundamentally sound and that modest reforms and policy initiatives such as investment shifts can perceptibly improve economic performance. From its perspective, to move outside the limits of the present economic model would entail political and economic costs and risks greater than the potential benefits. This view is not likely to change unless there is a powerful catalyst, such as:

- A drop in living standards that would cause civil unrest or an unacceptable decline in productivity.
- A belief that poor economic performance threatens defense capabilities.
- A realization that the Soviet economic system is not adequate to the task of narrowing the technology gap with the West.

The eventual emergence of a new generation of Soviet leaders less bound by the ideological and political constraints of the past might increase the leadership's sensitivity to such potential problems and decrease its reluctance to propose and then implement reforms that might ameliorate them.



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## Soviet Economic Reform: Status and Prospects

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### Introduction

Since Stalin, Soviet economic development has been achieved primarily through massive infusions of labor and capital—a strategy of “extensive” growth. This strategy went hand in hand with an economic system that was highly centralized and emphasized growth with little concern for efficiency. Both the strategy for growth and the system now have become anachronistic. Soviet economic (GNP) growth declined from an estimated average annual rate of 5 percent in the 1960s to 3 percent in the 1970s, and a further drop is likely in the 1980s. As a result, the leadership has launched a drive for “intensive” growth—increased productivity—and called for modifications or “reforms”<sup>1</sup> of the economic system that reinforce this change in strategy.

three areas—economic organization, planning, and the system of incentives and performance indicators (“the economic mechanism” in Soviet parlance). He stressed the urgency of implementing reform measures, calling the time “ripe” for change, criticizing “fussing and talk” instead of action, and declaring that half measures were unacceptable. He wanted the new reforms in place by 1986 in order to “enter the 12th Five-Year Plan (1986-90) with a smoothly operating economic mechanism.”

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This paper examines recent attempts to reform the organization and management of the Soviet economy and the prospects for future change. It focuses initially on Yuriy Andropov’s legacy because Andropov imparted a new momentum to reform and laid out a general reform agenda. The paper then speculates on how the Chernenko regime will carry through and expand Andropov’s initiatives. A section on obstacles to reform examines the factors that are likely to prevent major systemic change. A final section speculates on catalysts that might propel a future leadership into more radical options. The appendix provides a more detailed description of the conservative model currently in use, examines alternative economic models that are theoretically available to a Soviet leadership, and assesses the support that these enjoy.

In his speeches and writings, he raised expectations that the new regime would take a fresher, more flexible approach to the economy’s systemic problems. In a February 1983 *Kommunist* article, for example, Andropov stressed that Marx himself had never adhered strictly to some “abstract ideal of neat, sleek ‘socialism’ ” and that Marx’s ideas were “not a dogma but a guide to action.” He subsequently recommended studying the economic experiments of other socialist countries and borrowing those that are relevant. He established a special interdepartmental council headed by Nikolay Baybakov, chairman of the State Planning Committee (Gosplan), to study such innovations in the field of economic management. Party secretary Ryzhkov’s new Central Committee Economic Department, formed to articulate broad macroeconomic policy issues, also was charged with recommending managerial reforms.

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### Andropov’s Legacy

Upon acceding to party leadership in November 1982, Andropov called for improvements “in the entire sphere of economic management,” specifically in

*New Initiatives.* The reforms actually launched during Andropov’s leadership fell largely in the third area that he targeted for improvement—incentives and performance indicators. They had much in common:

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- They shared a strong commitment to central planning and central control over the key economic decisions such as pricing and new investment. Enterprise rights were strictly limited, and plan fulfillment was still the key performance indicator.

<sup>1</sup> The word *reform* is anathema to most Soviets, who prefer to use more neutral terms such as *improvements* and *restructuring*. *Reform* will be used in this paper, however, as a convenient label for all changes, large and small, in the Soviet economic system. This definition encompasses measures that are “administrative”—largely organizational—and “economic”—concerned with planning or incentives.

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**Reform Initiatives Under Andropov**

**Decree on Contract Discipline in Industry.** Published in April 1983, this decree focused on the importance of filling orders for contracted deliveries in industry, calling this "one of the decisive conditions for the intensification of economic development." Although not recommending specific remedies, it called on the state planning and supply organs (Gosplan and Gossnab) to take major responsibility for linking the payment of bonuses more closely to fulfillment of contracts and improving the reliability of the supply system. [redacted]

**Five-Ministry Industrial Experiment.** This experiment, announced in July 1983, began on 1 January 1984 in two all-union ministries—Electrical Equipment Industry and Heavy and Transport Machine Building—and three republic-level ministries—Food Industry (Ukraine), Light Industry (Belorussia), and Local Industry (Lithuania). It was expanded to another 21 national and republic ministries in January 1985. The decree seeks to raise productivity and speed the introduction of new technology by improving planning indicators (for example, elevating the importance of contract fulfillment), expanding the decisionmaking power of the enterprise, and linking earnings more directly to performance. The enterprise will have more control over investment funds, the size of the work force, and incentive payments, and a limited authority to establish prices for new products. [redacted]

**Decree on Science and Technology (S&T).** A decree issued in late August 1983 criticized scientific organizations and government ministries and departments

for not adequately stimulating the introduction of new technology and called for some changes in management and incentives. Specifically, 25 percent of worker and enterprise bonuses could be lost by an enterprise that failed to meet S&T plan targets, and more liberal price increases would be allowed for the production of high-quality items. [redacted]

**Experiment in Consumer Services.** This experiment, approved in February 1984 and begun on 1 July, seeks to raise the interest of consumer service enterprises in serving the public as opposed to institutional customers. Pay will be more closely linked to final results; enterprises will be given more authority over wages, the number of employees, and the use of profits; and contract fulfillment will become a major performance indicator. [redacted]

**Increased Emphasis on Small Labor Units.** In March 1983 party secretary Mikhail Gorbachev launched the organizational campaign for a new pay system for farmworkers. Small teams will be formed on a voluntary basis to make contracts with farm management for the delivery of agricultural products. In return, they will receive the necessary equipment and supplies for an extended period, will be allowed to make production decisions, and will be paid according to "final results." The brigade, a small labor unit in industry, is designed to perform along similar lines. [redacted]

- They represented a continuing effort to find the right combination of performance indicators that would make enterprise actions responsive to planners' objectives. The most important objectives were defined as increasing productivity and introducing new technologies.
- They attempted to refine incentives with an emphasis on personal accountability; wages, bonuses, and fringe benefits were tied more closely to individual effort and performance.

- They were a tacit admission that past reforms had been only partially implemented, since many of the "new features" were actually retreads of earlier decrees. [redacted]

These initiatives, taken as a whole, represented a decision to retain the basic structural features of the

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“conservative” economic model of the Brezhnev era and to reject systemic reforms that would have resulted in a major devolution of key decisionmaking authority to the production unit. Indeed, this was the message of a press conference for foreign and domestic journalists held in August 1983 soon after publication of the decree announcing the five-ministry experiment. Nikolay Baybakov, apparently appointed as regime spokesman to clarify the meaning of the reform, stated:

*We are not setting ourselves the task of weakening the centralized management of the economy. On the contrary, we are taking steps to improve centralized management and to enhance its scientific essence and efficiency.* [redacted]

The major difference between this approach to reform and that of the late Brezhnev years was a willingness to give somewhat more freedom to the production unit in operational decisions in return for the unit’s assuming increased responsibility for results. This emphasis reflected Andropov’s campaign for increased discipline and responsibility throughout the economy—one of his major contributions to improving economic growth. [redacted]

**Impact.** The economic impact of these reforms is likely to be small. Many of the “new” provisions have been tried before with limited success. Granting enterprises more control over investment funds, for example, was a part of the 1965 reforms. The planning of investment supplies was not decentralized at the same time, however, and would-be investors were unable to obtain the necessary physical resources needed to implement the plans. The same conditions prevail today. Similarly, contract fulfillment has been an enterprise success criterion for years but with little effect. While official progress reports to date on the five-ministry experiment indicate that the participating enterprises have achieved substantial improvements in contract fulfillment, an experiment—as even some Soviets have pointed out—is conducted in a hot-house atmosphere with the enterprises involved receiving priority treatment. The same results probably will not materialize as the new measures are spread throughout the economy. [redacted]

Moreover, these reforms do nothing to correct basic systemic distortions that ultimately prevent Soviet planners, managers, and workers from making economically efficient decisions. The three most fundamental flaws are (1) the lack of a reliable guide for making economic decisions (the price system is seriously flawed); (2) the limited influence that consumers have on producers; and (3) the absence of real competition among suppliers.<sup>2</sup> [redacted]

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**The Chernenko Regime’s Potential**

The current leadership’s public statements and its actions over the last year provide some evidence of how it intends to expand on the Andropov-sponsored initiatives. They also contain hints about other initiatives that may be undertaken and provide a basis for evaluating whether this leadership is willing to go beyond the limits of the current conservative economic model. [redacted]

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**Current Leadership Views.** Before becoming General Secretary, *Konstantin Chernenko* had no economic responsibilities and displayed little interest in economic matters. During most of the Brezhnev years, he was occupied with the administrative details of running the Central Committee’s General Department, and later he acquired the ideology portfolio. Nevertheless, he espoused some views during this period that are directly relevant to reform. [redacted]

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As the party’s chief guardian of ideology, for example, Chernenko took a hard line on economic orthodoxy. He stressed that the “political” factor must be taken into account in every economic decision, stating that “a narrow, pragmatic, mercenary view of economics is alien to Communists.” Chernenko also maintained that ministerial controls were too strong at the regional level. In May 1982 he solidly endorsed the rayon agro-industrial associations (RAPOs),<sup>3</sup> saying that their formation was necessary to end the ministerial

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<sup>3</sup> RAPOs were created in 1982 by the Brezhnev Food Program to strengthen management at the local level. The intention was to give them broad authority over all agriculture-related enterprises in the district regardless of departmental subordination. [redacted]

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disarray "which had previously been eroding this effort." He apparently had some hand in encouraging the economic experiments in Georgia that in effect shift decisionmaking more toward the regional level.<sup>4</sup>

[redacted]

Upon becoming party leader in February 1984, Chernenko repeated Andropov's call for improving the system of incentives and performance indicators. He endorsed the expansion of enterprise rights, specifically the five-ministry experiment. He also argued that the managerial organs of the economy are overstuffed. In his speech to the April 1984 plenum, he called for a reduction "not only at lower and middle levels of management but also at its summits." He recommended that a better ratio be maintained between those involved in production and management, urging moves "from the office desk to the machine tool."

At the April 1984 Central Committee plenum, Chernenko urged the local Soviets to "keep their fingers permanently on the pulse of our economic life" and specifically directed them to play a greater role in the construction of economic and cultural projects. He faulted the ministries for "still trying to circumvent the local Soviets" and for neglecting the construction of housing and social, communal, and cultural facilities.

*Mikhail Gorbachev*, the unofficial "second secretary," has a longer history of concern with economic questions than does the General Secretary. As the party secretary responsible for agriculture, Gorbachev has long been a strong advocate of improving incentives and using "economic" rather than "administrative" levers to manage the economy.<sup>5</sup> His speeches and writings indicate that he favors:

- The collective contract method—a scheme to improve incentives in agriculture, which he introduced at an all-union conference on agriculture in March 1983.

<sup>4</sup> These include the Abasha experiment, the forerunner of the RAPO, and the formation of a new organization in Poti charged with coordinating the development of all industrial, transport, and consumer service enterprises in the city. Georgian party leader Eduard Shevardnadze said in February 1984 that Chernenko "played a large role in the elaboration and adoption" of a December 1983 decree that endorsed the Georgian experiments and claimed that "some of them were even adopted at Chernenko's initiative."

[redacted]

- Self-financing for Soviet farms as a means of improving managerial accountability, initiative, and production efficiency.
- The expansion of production on the peasants' private plots.
- The RAPO reorganization.

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*Grigoriy Romanov*, the party secretary responsible for the defense and machine-building industries, built a reputation as an economic innovator and efficient manager while party chief in Leningrad during 1970-83. He was closely identified with two initiatives—the production association and social planning—that had as their aim improved economic management through stronger regional control. Production associations—organizations that manage the activities of several related enterprises—gained considerable authority at the expense of the central ministries and in 1973 were accepted for eventual implementation throughout the economy. Social planning was an attempt to find an integrated solution to economic and social problems by increasing regional influence in the planning process and cutting across departmental boundaries. This concept was incorporated in the economic reforms of 1979. Romanov's recent speeches indicate a continued interest in the search for new management techniques.

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*Nikolay Tikhonov*, Chairman of the Council of Ministers since Kosygin's death in 1980, does not appear to be a specialist in the reform area like his predecessor—the father of the 1965 economic reform—and has had little to say publicly on this subject. In his book on the Soviet economy published in 1984 and in his Supreme Soviet election speech of March 1984, he offered a pedestrian rendition of established themes, noting the need to improve management and endorsing the principles of improved incentives and expanded enterprise rights that underlie the five-ministry experiment. In the past, he has supported cross-ministerial approaches to economic management, such as the territorial production complexes. Although Tikhonov was resisting Andropov's reform proposals, it was never made clear whether the point of contention was their pace, specific experiments, or general philosophy.

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*Geydar Aliyev*, First Deputy Chairman of the USSR Council of Ministers since November 1982, is rumored to be a contender for Tikhonov's post. In his former position as party boss in Azerbaijan, he rarely spoke about the economy's systemic weaknesses and has not addressed this topic since coming to Moscow. Aliyev stood practically alone among the leadership in failing to note the importance of economic reform in his Supreme Soviet election speech in early 1984. Instead, he stressed the need to strengthen discipline and improve organization—themes that had worked well in enhancing his reputation for tough leadership in Azerbaijan. [redacted]

**Likely Reform Initiatives.** The strong sense of continuity with previous reform themes evident in the current leadership's statements suggests that the Chernenko regime will continue the modest efforts begun under Andropov's leadership to improve the system of incentives and performance indicators. Since Andropov's death, all the members of the senior leadership have endorsed such changes, which offer some hope of economic benefit with minimum disruptions to present lines of authority. In late August the Politburo acclaimed the success of the five-ministry experiment and approved the proposal of the Council of Ministers to extend it to other sectors in January 1985. In an October speech to a People's Control conference, Chernenko revealed that a Politburo commission had been formed to propose improvements in "the economic mechanism." In a December 1984 issue of *Kommunist*, Chernenko emphasized the importance of this task, stating that technological advances "remain poised in midair" unless accompanied by "perfection" of the economic mechanism. [redacted]

If other changes are to come, the Chernenko regime most likely will move in the area of organizational reform. This was one of the few economic topics on which Chernenko himself held strong views before becoming General Secretary. One of the major goals of such reform is likely to be a reduction in the size of the bureaucracy. Some moves in this direction may have been under way at the time of Andropov's death. According to dissident historian Roy Medvedev, Andropov had proposed that the swollen ranks of

party and governmental administrators be reduced by 20 percent. [redacted]

Another likely target for organizational reform is the ministerial structure itself. According to Romanov in March 1984, a future Central Committee decree on improving the management mechanism will focus on "the structure of ministries and departments." General support for such change is evident in the Soviet press. One of the most comprehensive calls for ministerial reform was made in a July 1984 *Pravda* article by Dzhermen Gvishiani, a deputy chairman of the State Committee for Science and Technology. Gvishiani—a son-in-law of former Premier Aleksey Kosygin—lent his authority to various proposals for improving the ministerial system, including the creation of new territorial organs for such sectors as construction and transportation, special organizations to manage priority programs, and the possible formation of superministries (to coordinate the work of related ministries). In this regard, a 27 May decree on ways to improve the construction industry indicated that in the future more emphasis will be placed on the territorial (as opposed to ministerial) management of construction, although it left unspecified how this would work. [redacted]

The economic impact of such new reforms would be similar to that of the Andropov initiatives. They might allow the current economic model to operate a little more efficiently but would not correct its basic flaws. The political impact of organizational change probably would be more significant. The reorganization of the ministerial system would necessarily force some power sharing by the Moscow ministries—with regional authorities, enterprise managers, and perhaps new organizations such as superministries. It is doubtful that such measures could be taken without Premier Tikhonov's support, and it is by no means certain that he would back them. [redacted]

The current leadership has given no indication that more radical structural reforms that involve major decentralization, such as those proposed in Hungary

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(see appendix), are being considered. In an October issue of *Kommunist*, Politburo member and Ukrainian party boss Shcherbitsky harshly criticized those reformers who would put their trust in "spontaneous market regulation" of the economy, claiming this would damage the economy, harm the "vital interests of the working people," and ultimately threaten the return of capitalism. There seems to be a general leadership consensus that the system is fundamentally sound and that modest reforms and policy initiatives such as investment shifts and a change in patterns of trade can perceptibly improve economic performance.

**Obstacles to Reform.** Formidable obstacles block any regime's attempts to make fundamental changes. These obstacles to some degree also inhibit even modest reform efforts.

*The ministerial bureaucracy* is a major obstacle to reform not only because of its inertia and belief in its indispensability—typical of any entrenched bureaucracy—but, more important, because of its well-founded fear that a shift in the locus of decisionmaking, which usually accompanies reforms, will lead to a loss of power and prestige. Council of Ministers Chairman Tikhonov, who has served in the ministerial structure since 1950, is unlikely to give enthusiastic support to major changes in his "empire." Chernenko, moreover, would probably not want to put much political pressure on one of his staunchest allies.

*Other vested interest groups*, as diverse as party *apparatchiks* and members of the labor force, also resist reforms because they fear change and a loss of power. Reforms that allow enterprises to respond more to economic incentives than to administrative directives would reduce the party's ability to intervene in economic matters. As long as party officials are held accountable for economic results, they will be loath to relinquish control. Workers may fear that reforms will have a negative impact on income distribution and job security; worker apprehensions were largely the reason for the interruption of the Hungarian reforms in 1972.

*A traditional preference for piecemeal change* also predisposes the Soviets toward modest reforms, according to many Soviet and Western economists who

believe that major structural change cannot be accomplished in a gradual fashion. As one Soviet academic said:

*It is impossible to perfect a mechanism of economic management that took shape many decades ago by gradually replacing the most obsolete elements with more effective ones . . . the discrete character of change . . . must be recognized. This means that this change occurs rather infrequently . . . but then is complex and profound.*

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*A lack of practical prescriptions for reform* by Soviet economists confuses and irritates the leadership. At the June 1983 plenum both Andropov and Chernenko criticized the social scientists for failing to provide pragmatic solutions to economic problems. The Central Economics and Mathematics Institute, which has been engaged in a long-running dispute with the Institute of Economics, was specifically censured for its failures at this session. Subsequently, a February 1984 decree attacked the Institute of Economics for "serious shortcomings," including the failure to provide a sound theoretical basis for "perfecting the economic mechanism."

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*The size and complexity of the Soviet economy* also raises legitimate fears that reforms would initially cause severe dislocations, which the leadership would judge to be economically and politically unacceptable. Hence, Andropov's warning in August 1983 that "in an economy of such dimension and complexity as ours, we must take extreme care." For this reason, Soviet academicians have told Westerners that many East European reforms—particularly Hungarian—are not relevant or applicable in the USSR.

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*Ideology* also tempers the pace and depth of reforms. Moscow considers itself the chief guardian of Marxist-Leninist orthodoxy and an economic role model for the rest of the world and would be very reluctant to adopt changes that could be interpreted as a rejection of such principles and as an open invitation for even more sweeping changes elsewhere in the Soviet Bloc.

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**Views of the Economic Establishment**

*Below the members of the Politburo are Gosplan officials, prestigious academic economists, and other members of the economic establishment who must translate the often nebulous line on reform established by the leadership into specific recommendations for change. These experts could influence the direction of reform and to a large extent determine its success or failure. The economic establishment, however, is deeply divided in its views on reform and provides little support to the regime in developing a comprehensive and internally consistent approach.*

*A battle currently raging over price formation is typical of the disagreements among the specialists. This battle has a long history and pits the mathematical economists against the traditionalists. Nikolay Fedorenko, the director of the Central Economics and Mathematics Institute (TsEMI), is the leading proponent of the "optimality" school of thought, which argues that a price system reflecting scarcity information will promote the optimum use of resources. He has repeatedly presented his "optimal planning" proposals to Gosplan but has thus far been rebuffed by a group of economists associated with the Institute of Economics. They believe that not just scarcity but multiple criteria should be used in a socialist society. The debate has become heated at times, with Nikolay Glushkov, chairman of the State Committee on Prices, accusing Fedorenko of trying to "foist" his views on government organs after "failing to prove their correctness in open scientific debate." The economists are also far apart on other crucial reform issues such as the choice of the best enterprise performance indicator and the ideal organizational form for promoting technological progress.*

*The pressure for liberalization in the sociopolitical areas that followed economic reforms in Eastern Europe, in fact, is reason enough for apprehensions among Soviet leaders about the course of reform in the USSR.*

**Possible Catalysts for Major Reforms**

The Chernenko regime, then, is likely to settle for piecemeal, modest economic reforms that do not move

the system outside the bounds of the current conservative model. Like its predecessors, this regime apparently perceives that to do otherwise would entail costs and risks greater than the potential benefits. Powerful catalysts would be required to change this perception and to compel this leadership or a future one to seek out more radical reform strategies. The chances that such pressures will develop are not high, but under certain conditions the leadership might take more decisive steps.

**The Consumer Factor.** Continued slow economic growth makes it increasingly difficult to provide for the needs of the three major resource claimants—defense, investment, and consumption. If the regime were to follow policies that always relegate consumption to the role of residual claimant, living standards could stagnate or decline. This might lead to active unrest and worsen morale and labor productivity.<sup>6</sup> If faced with such problems, the regime may feel that reforms have become necessary and worth the risk involved. A recent ideological debate in the press—over the meaning and implications of "contradictions" in a developed socialist society—indicates that some influential Soviets now believe that consumer concerns put pressure on the leadership for reforms, political as well as economic.

Under these conditions, the Hungarian experience could look attractive, leading to the adoption of some aspects of the Radical and Liberal models (see appendix). Hungary's New Economic Mechanism deserves some credit for improving the lot of consumers and keeping discontent at a relatively low level. The variety and quality of consumer goods, including agricultural products, were improved by increasing incentives and efficiency in the socialized sector as well as by legalizing activities in the private sector. On the other hand, the Hungarian workers were fearful that the reforms would go too far and expose them to the vagaries and insecurities of the marketplace.

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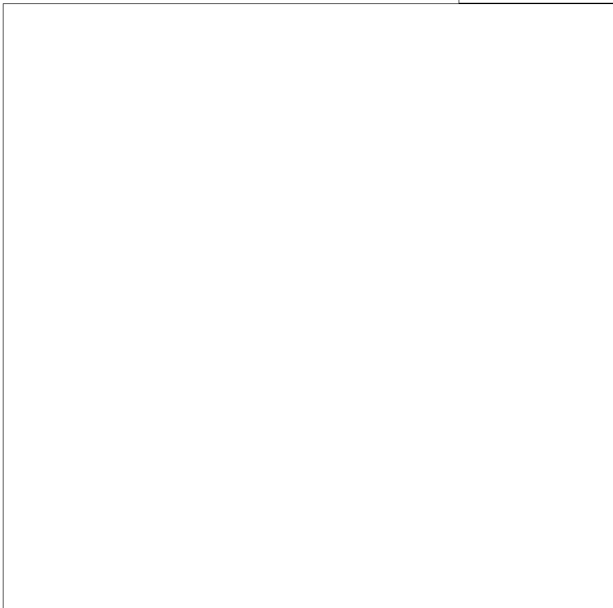
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**The Military Factor.** The political leadership, supported by the military, may come to believe that current reforms will not substantially improve the efficiency of the Soviet economy, particularly the more backward civilian sectors, and that this will have serious implications for the quantity and quality of military goods. At present we estimate that nearly 25 nondefense industrial ministries are involved in providing R&D, materials, components, and parts to the nine defense industrial ministries. Thus, systemic problems in the civilian sector would adversely affect the defense sector even if it were problem free. [redacted]

There is some evidence that, in at least some official Soviet circles, there is a recognition of the link between economic reform and military strength. There are, however, divergent views about what reforms are needed to protect the military interests, and as yet no one seems to be arguing that the problem is so severe that major changes are needed. [redacted]



**The Technology Factor.** Soviet political leaders and economists alike believe that the introduction of new technologies, which save labor, materials, and energy, will help relieve the resource constraints and industrial bottlenecks that have been at least partially responsible for the steady decline in economic growth. They view success in this area as essential not only to meet domestic economic goals but to keep up with technological and military developments in the West. At

present the Soviets are trying to develop a program to accelerate technological modernization on a national scale. All of the proposed changes assume that the present planning model will be retained. [redacted]

Many Western specialists on the Soviet economy and some Soviets believe that the conservative model that is currently used will not prove adequate to the task. According to one Western economist, who put it most succinctly, to accept the current model "is to give up the goal of attaining the technological level of the leading industrial countries. Whatever the merits of the Soviet economic mechanism, the promotion of technological advance is not one of them."<sup>7</sup> If this becomes apparent to the leadership, the continuing technology gap may be a catalyst to reform. Since the present system's inflexibility and centralized nature are major stumbling blocks to innovation and its translation into production, logical reforms would move toward greater decentralization and the injection of market forces. [redacted]

**The Political Factor.** In the near future a new generation of Soviet leaders will take on the responsibilities of devising economic strategies. They will face many of the same obstacles to reform that stymied initiatives by their predecessors, but some of these obstacles may be less inhibiting. Ideology, for example, may not be as important to those who did not grow up in the early years of Soviet power; they may believe that a more practical approach is relevant to contemporary problems. The ability to appoint a new generation of officials in the ministerial structure should reinforce the leadership's ability to take a fresh approach. [redacted]

The emergence of a younger generation of Soviet leaders alone, however, probably would not be enough to stimulate more radical reforms. At most, generational political change will make it easier for the leadership to act should the economy deteriorate to the point that living conditions are declining and military and technological competition with the West is more difficult to sustain. [redacted]

<sup>7</sup> Joseph Berliner, "Planning and Management," *The Soviet Economy: Toward the Year 2000*, 1983. [redacted]

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## Appendix

### Reform Options

This appendix examines the range of reform options available to the leadership. It groups these options into four basic models<sup>8</sup> and describes their support—among the leadership, in authoritative newspapers and journals, and in unofficial sub rosa conversations and publications.

The *Conservative Model* is the one that has been used by all Soviet regimes since Stalin. It is based on the principle of central planning and, thus, places strict limits on the decisionmaking power of the production unit. Adherence to this model has not precluded a broad range of modifications, largely designed to promote technological progress and improve the quality of production. Some of these employ economic levers—new forms of incentives—while others use administrative measures—changes in the structure of authority.

Most Soviets acknowledge that this model has been successful in generating “extensive growth,” but some question whether it can also yield “intensive growth”—increased productivity. So far, the Soviet leadership and a broad range of government and party officials as well as academicians appear convinced that the basic structural features of the present system are sound and that patches here and there will be adequate to ensure its success. This does not preclude heated debate in the leadership and the economic establishment about the type and size of patches needed.

The *Reactionary Model* presumes a return to a more Stalin-like economic system, that is, one that is even more highly centralized and tightly controlled than the present system. Consistent with and perhaps essential to this shift in planning and management are changes in economic policy such as coercive labor laws like those of the late 1930s and a return to the high-investment growth strategy of the 1960s.

The official viewpoint seems to be that economic circumstances now are very different than those in the

<sup>8</sup> These models are based on those outlined in Joseph Berliner's article “Planning and Management” in *The Soviet Economy: Toward the Year 2000*, London, 1983.

1930s and that the inflexibility of the reactionary model is ill suited to promoting intensive growth. Moreover, the actions of recent Soviet regimes indicate that they believe consumer/worker demands must be assuaged to some degree to increase productivity. Both Andropov and Chernenko, for example, pledged increased supplies of consumer goods and services, and work on a consumer “program” is under way; agricultural investment has retained its one-quarter share of total investment, and strong support for the Food Program continues. These policies would be at odds with the more repressive and austere conditions required by the reactionary model.

Andropov's discipline campaign, however, did contain some elements of neo-Stalinism. When first introduced, it apparently released a pent-up wave of nostalgia for the strength and decisiveness of a Stalin; many Soviets expressed satisfaction with the campaign as something long overdue and necessary to get the economy moving again. The subsequent course of the campaign, however, illustrates the difficulties of implementing such a policy in today's milieu. Workers began to complain as the crackdown became too heavyhanded and indiscriminate. Fearing that a further alienation of the work force would complicate the labor shortage, the regime was forced to repackage the campaign as a more subtle drive for personal “accountability.” Carrots were added to the sticks. New decrees provided flexible work hours for the service sector and expanded consumer services at factories so that workers could remain at their jobs the required time and still take care of household errands.

The *Radical Model* entails a decentralization of planning and management as originally proposed in Hungary's New Economic Mechanism (NEM).<sup>9</sup> The

<sup>9</sup> The NEM's basic features, introduced in 1968, were substantially diluted in subsequent years by a layer of controls—subsidies, price controls, and administrative guidance—to provide more insulation for the economy. New measures announced last year are to be introduced gradually during 1984-90 and seek to revive the 1968 reforms.

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government remains in control of basic economic strategy—key investment decisions, income distribution—but the enterprise is freed of plan directives and able to pursue profits based on market-determined prices and costs. This approach, in essence, is market socialism. [redacted]

The Soviet leadership traditionally has decreed that moves toward market socialism are ideologically unacceptable. Although both Andropov and Chernenko spoke of the need to study and borrow from the economic systems of “fraternal countries,” they stopped short of endorsing the more radical reforms. Official comment has been favorable, for example, on selected aspects of the Hungarian experiments—in agriculture, credit and finance, and retail trade—but has avoided references to industrial decentralization, the heart of the NEM. Soviet reforms, including those initiated by Andropov, have attempted to modify the behavior of managers and workers within a tightly controlled sphere of operational decisions bound by the plan and with centrally administered prices as an immutable given. [redacted]

Because of the leadership’s stand on this type of reform, open and explicit advocacy of it in official publications is rare. Support is usually couched in deliberately ambiguous terms such as “radical restructuring” and more reliance on an “automatic mechanism.” There are exceptions to the rule, however. In the October 1983 issue of *The Economics and Organization of Industrial Production* (EKO),<sup>10</sup> B. P. Kurashvili, a Georgian lawyer known for his unorthodox views on economic reform, specifically argued that the Soviet Union should adopt a system like Hungary’s. He urged the creation of a single industrial ministry that would guide the economy by indirect means—“investment, credits, taxes, and other economic means.” State organs would have “no right to pass down specific, obligatory plan targets.” [redacted]

Such views are more frequently expressed in private or aired in academic circles. Ivan Buzdalov, a senior researcher from the Institute of Economics of the World Socialist Systems (IEMSS) candidly tells

<sup>10</sup> EKO 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 Abel Aganbegyan. [redacted]

Westerners that he is an advocate of economic reform along the Hungarian lines. A paper delivered to an April 1983 symposium of an economic institute attached to the Academy of Sciences in Novosibirsk<sup>11</sup> directly attributes the recent slowdown in economic growth to centralized planning and excessive bureaucracy. The author, a sociologist, discusses at length the social groups whose vested interests lead them to oppose reforms. She is not explicit about the type of system she favors but implies her support for market-type reform. This view is probably shared by a large number of academicians. [redacted]

The *Liberal Model* would preserve the traditional planning methods for most of the economy but liberalize the restrictions on private initiative. Within the socialized sector, the economy would operate, as in the past, with centrally established production targets, centralized material technical supply, and centralized price administration, but outside these boundaries individuals or small groups would be encouraged to engage in economic activity for private profit. This system, to varying degrees, is common in Eastern Europe. [redacted]

The Soviet Constitution of 1977 specifically sanctions the expansion of the private sector in consumer services. Subsequent regimes, however, have shown little interest in taking such initiatives. Recent actions indicate that this option is currently out of favor with the Chernenko regime. An April article in a Soviet history journal suggested that current expansion of the private sector could help overcome economic bottlenecks, noting that Lenin has used free enterprise in the consumer sector in the early 1920s. An October issue of *Kommunist* sharply attacked the article, resulting in an unusual public retraction and a promise that future articles would meet required “scholarly-methodological” and “political standards.” [redacted]

<sup>11</sup> This paper, by Tatyana Zaslavskaya, was not intended for public consumption but was leaked to Western reporters. [redacted]

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A series of decrees during 1977-81 marked renewed regime support for the private farm sector, and this was enshrined in the 1982 Food Program. There is no guarantee that such support will continue. In the past, the leadership has been exceptionally fickle on this issue; private effort is encouraged in poor harvest years but is repressed when the socialized farm sector recovers. [redacted]

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A larger role for the private sector is supported by a broad range of Soviets, including both liberals and conservatives, and has been a frequent subject of press articles in recent years. *Kommunist* editor and Central Committee member Richard Kosolapov, in conversations with US Embassy officers in Moscow, has often volunteered his view that small-scale private enterprise is not incompatible with socialism as long as it remains under effective controls. Soon after Andropov became General Secretary, the influential economist Abel Aganbegyan argued in *Trud* that private participation in such consumer service areas as transportation and retail trade should be allowed to increase. He hastened to add that these ventures should be taxed and should operate under strict state control. Reform advocate Buzdalov said in June 1983 that his institute (IEMSS) had endorsed the need for the private sector in consumer services and had been supported in this effort by the staff of party secretary Gorbachev. He lamented that this idea was effectively blocked by the Institute of Economics. [redacted]

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