

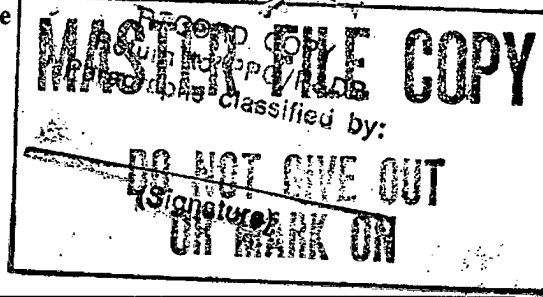
Page Denied



Directorate of Intelligence

Confidential

25X1



Gorbachev's Policy Toward the Consumer: Crossing the Rubicon?

25X1

A Research Paper

PROJECT NUMBER SOVA 0012 87
 I W M / J K
 PAGE NUMBERS 29
 TOTAL NUMBER OF COPIES 590
 DISSEM DATE 880616
 EXTRA COPIES 479-507
 RECORD CENTER 508-537
 JOB NUMBER 425-764-88

Confidential

SOV 88-10038
June 1988
Copy **478**

Page Denied



**Directorate of
Intelligence**

Confidential

[Redacted]

25X1

Gorbachev's Policy Toward the Consumer: Crossing the Rubicon?

[Redacted]

25X1

A Research Paper

This paper was prepared by [Redacted]
[Redacted] Office of Soviet Analysis

[Redacted]

25X1

Comments and queries are welcome and may be
directed to the Chief, Economic Performance
Division, SOVA [Redacted]

25X1

Reverse Blank

Confidential
SOV 88-10038
June 1988

Confidential



25X1

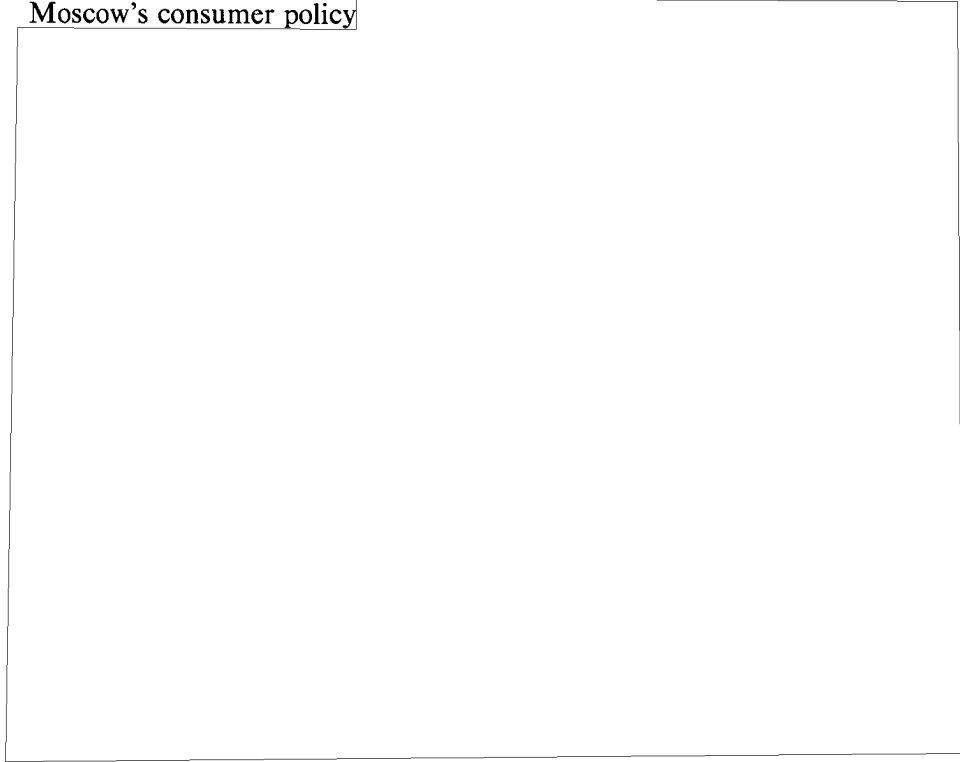
**Gorbachev's Policy
Toward the Consumer:
Crossing the Rubicon?**



25X1

Scope Note

Mikhail Gorbachev's efforts to revitalize Soviet economic performance depend heavily on his ability to create incentives for greater worker effort. This paper addresses Moscow's efforts to raise the standard of living of Soviet consumers. It focuses on living standards of the typical Soviet worker rather than those of the privileged elite and does not attempt to examine regional differences in consumption. It builds on work already in progress or completed by the Office of Soviet Analysis on various aspects of Moscow's consumer policy



25X1

Confidential

25X1

**Gorbachev's Policy
Toward the Consumer:
Crossing the Rubicon?** [redacted]

25X1

Summary

*Information available
as of 1 April 1988
was used in this report.*

After three years of Mikhail Gorbachev's leadership, Soviet citizens have little to cheer about. The consumer sector remains plagued by shortages of goods and services evident in lengthy queues, rationing, poor worker morale, and open acknowledgment by Soviet officials and media that the consumer economy is in disarray. The slowing gains in living standards characteristic of the later Brezhnev years have slid to a halt under Gorbachev. In some respects, daily life has become even harder. The antialcohol campaign has deprived citizens of their most common means of escape from the harsh realities of Soviet life. The oft-proclaimed benefits of socialism—job stability, free health care, access to higher education, and low, stable prices for basic necessities—can no longer be considered guarantees under Gorbachev's version of a modernized economic system.

25X1

To turn the consumer situation around would require reforms in the management of the economy beyond those laid out at the Central Committee plenum in June 1987 as well as sustained major shifts in resource flows and priorities. Such shifts imply costly structural changes in production capacity and some relaxation of the defense effort. Gorbachev has recently shifted some investment from industrial enterprises to housing construction, but noticeable increases in output of consumer goods and services will require more substantial diversions of investment resources.

25X1

Gorbachev apparently would like at least to reduce the growth, if not the level, of defense spending, but it is unclear whether he has yet mustered the political muscle to actually divert resources from defense. The test will come over the next year or two as the leadership formulates detailed annual investment plans and the resource allocation guidelines for the next five-year plan (1991-95). In any case, the payoff from increased investment would be slow in coming because of the drawn-out process of capital construction in the USSR. [redacted]

25X1

From the beginning of his tenure, Gorbachev has publicly recognized the importance of improving living standards in order to boost worker morale and productivity. But he also indicated that major improvements in the consumer's lot must wait until modernization and restructuring pay off. As recently as February 1987 he warned Soviet citizens they will have to tighten their belts and hold out through a very difficult period of two to three years before they will see the benefits of restructuring. [redacted]

25X1

Confidential

Confidential

25X1

The Gorbachev regime's early strategy was to issue a hodgepodge of official decrees and resolutions in the hope of improving the consumer's lot "on the cheap":

- All enterprises, including those in the defense sector, have been instructed to use "excess" resources to produce consumer goods and services.
- Local party officials have been told to take greater responsibility for consumer matters.
- Management reforms in light industry and retail trade have been introduced to improve the matchup between production of and demand for consumer goods.
- To encourage private production of consumer goods and services, new legislation has affirmed the legality of individual, part-time employment and fostered the establishment of member-run cooperatives.
- A modified version of the Brezhnev Food Program has been instituted, aimed at improving the quality and variety of the diet as well as productivity in agriculture.

25X1

The new legislation on the private sector holds the greatest potential for improving consumer well-being while avoiding major shifts in resource flows. But expansion of private business has gotten off to a slow start, hampered by the deeply rooted egalitarian instincts of many Soviet citizens and by their fear that the regime will reverse its support for private activity. Bureaucratic redtape and shortages of needed materials, facilities, and equipment have added to the difficulty of setting up private businesses.

25X1

So far, Moscow's consumer policies are not producing the hoped-for results. By the end of 1987, per capita consumption had actually declined. Although this was caused in part by the antialcohol campaign, other factors contributed:

- Pressure on heavy industry to meet ambitious output targets to support Gorbachev's modernization program has constrained the ability of enterprises to produce more consumer goods or to provide services.
- Enterprises in light industry continue to produce goods that often are unsalable (at existing prices). Retail stores accept low-quality goods as long as there is some chance of selling the merchandise.

Confidential

Confidential

25X1

- The new system of quality control may have generated some improvements in product quality, but at the expense of smaller quantities.
- A September 1987 Central Committee resolution notes that “the great potential that exists for rapidly increasing food supply is far from fully utilized.” At a special Central Committee conference in October 1987, Gorbachev called for a radical overhaul of the food-processing industry.

25X1

Meanwhile, Soviet citizens are being called on to work harder and more efficiently. Gorbachev’s labor policies—including higher performance standards and work norms, increased wage inequalities, shift work, bonus reductions, and layoffs—have not been greeted warmly by a work force long accustomed to job security and to the ethic, “We pretend to work and they pretend to pay us.” Worker discontent has increased, resulting in some resentment toward Gorbachev’s reforms and, in some cases, work stoppages.

25X1

The leadership has taken steps to put more teeth into its program to stimulate production of consumer goods and services. The plan for 1988 calls for more construction of consumer-oriented facilities and greater output of food and soft goods than originally intended in the five-year plan. The 1988 plan also calls for a shift in investment resources from “material production” to housing construction and consumer services. Moscow has also announced an ambitious program to modernize and expand the food-processing industry, including stepping up investment for the balance of the 1986-90 period, and has called on the defense industries to increase output of food-processing machinery. Furthermore, the Soviets may be looking to the West for help in refurbishing their consumer industries. Moscow recently obtained a \$2.1 billion line of credit from West German bankers to finance imports of machinery for consumer industries.

25X1

Whether plans for allocating more investment resources to production of consumer goods and services will be realized is not clear. Such intentions have been stated before but were always sidetracked by more pressing priorities in heavy industry or defense. If this happens again, Moscow could opt to improve the consumer’s lot in relatively short order by increasing imports of consumer goods. Prominent Soviet economist Nikolay Shmelev recently called for a “substantial” increase in such imports.

25X1

Confidential

Confidential

25X1

Failure to provide perceptible improvements in the everyday life of the Soviet populace will seriously erode the efficacy of Gorbachev's program for economic restructuring. The General Secretary's ability to modernize the economy depends as much on whether he can convince or coerce a reluctant labor force to adopt new work attitudes and work habits as it does on his ability to generate more and better capital goods. However, workers are unlikely to respond with alacrity to calls for harder work or opportunities for higher wages if they cannot translate their higher earnings into the desired goods and services. Unless accompanied by palpable improvements in everyday life, Gorbachev's reforms are unlikely to reverse the malaise that contributes to worker apathy, and could result in an increase in sporadic outbreaks of unrest and work stoppages. Gorbachev, in short, is finding that the indifference and frustration of Soviet workers is as much, or more, of an Achilles' heel to his game plan for economic restructuring as is bureaucratic intransigence. The issue now is whether the leadership has the political will to make the contentious decisions necessary to garner the popular support that is key to the success of *perestroyka*.

25X1

Confidential

Confidential

25X1

Contents

	<i>Page</i>
Scope Note	iii
Summary	v
The Consumer Economy Inherited by Gorbachev	1
Gorbachev's Early Strategy: Boosting Consumption "On the Cheap"	5
Assessing Gorbachev's Initiatives	5
Housing and Services: Bright Spots in the Consumer Picture	6
Minimal Support From Heavy Industry	9
Reforms Run Into Interference	9
Mixed Results From Quality Control	10
Private-Sector Initiatives Off to a Slow Start	10
Food Program Falters	11
Putting More Teeth in the Program	11
Will the Teeth Have Any Bite?	14
June 1987 Reform Package	14
Implications	15
Leadership Options	15
Increased Imports of Consumer Goods: The Short-Term Fix	15
Promotion of the Private Sector	17
Major Investment Shifts: The Long-Term Solution	18
A Mixed Package	18
 Appendixes	
A. Plans for 1986-90	19
B. Gorbachev's Early Strategy	23
C. Key Consumer-Oriented Decisions Issued by the Gorbachev Leadership	27

Confidential

Confidential

25X1

Gorbachev's Policy Toward the Consumer: Crossing the Rubicon?

25X1

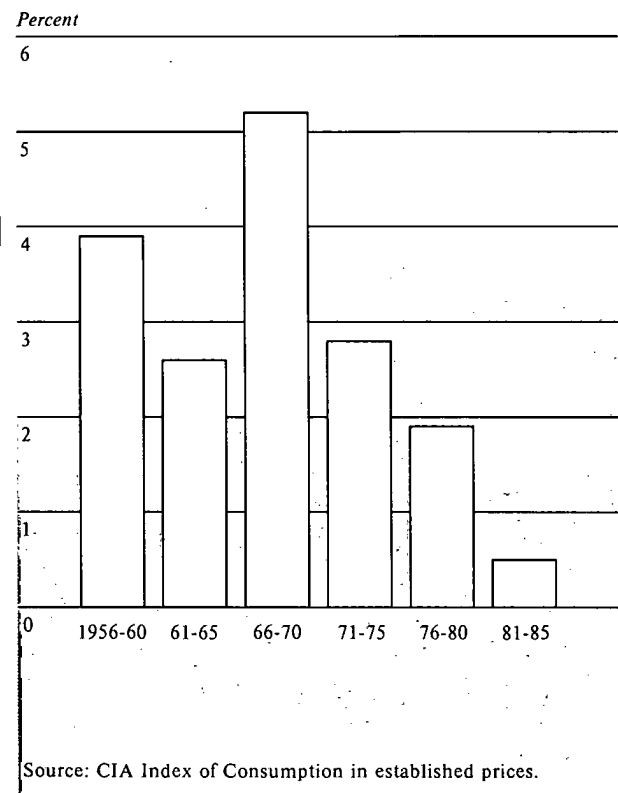
The Consumer Economy Inherited by Gorbachev

In March 1985 General Secretary Gorbachev inherited a consumer sector plagued by shortages of goods and services and marked by price inflation, large government subsidies on basic necessities, costly foreign purchases of consumer items, and black-marketeering. Moreover, after a decade of little or no gain in living standards, Soviet consumers had lost faith in the system's ability to alter this situation and had come to rely on inefficient and often illegal means of acquiring necessities and luxuries alike.

Statistical measures of per capita consumption (both Soviet measures and Western reconstructions) show small and declining increases over the past 15 years; however, these gains were skewed toward persons with influence, such as party and government officials and also blue-collar workers in critical industries, leaving much of the population with little or no change in their living standards. The average annual rate of growth of per capita consumption decreased from 2.8 percent in 1971-75 to 0.5 percent in 1981-85 (see figure 1). As a result, Soviet consumption levels, which were well below those of the developed Western countries and some East European countries in 1975, had fallen even further behind by 1985 and are gradually being overtaken by formerly impoverished countries like South Korea (see figure 2).

Furthermore, the Soviet economy has not effectively responded to changes in the composition of demand for consumer goods and services that have occurred with increased incomes and demographic changes. Chronic shortages of desired goods and services, as well as limited product mix and poor quality, have contributed to lackluster performance by Soviet workers. Soviet citizens know that increased earnings from harder work will not lead to a proportionate gain in well-being.

Figure 1
USSR: Average Annual Growth of
Per Capita Consumption, 1956-85



25X1

25X1

25X1

25X1

25X1

25X1

25X1

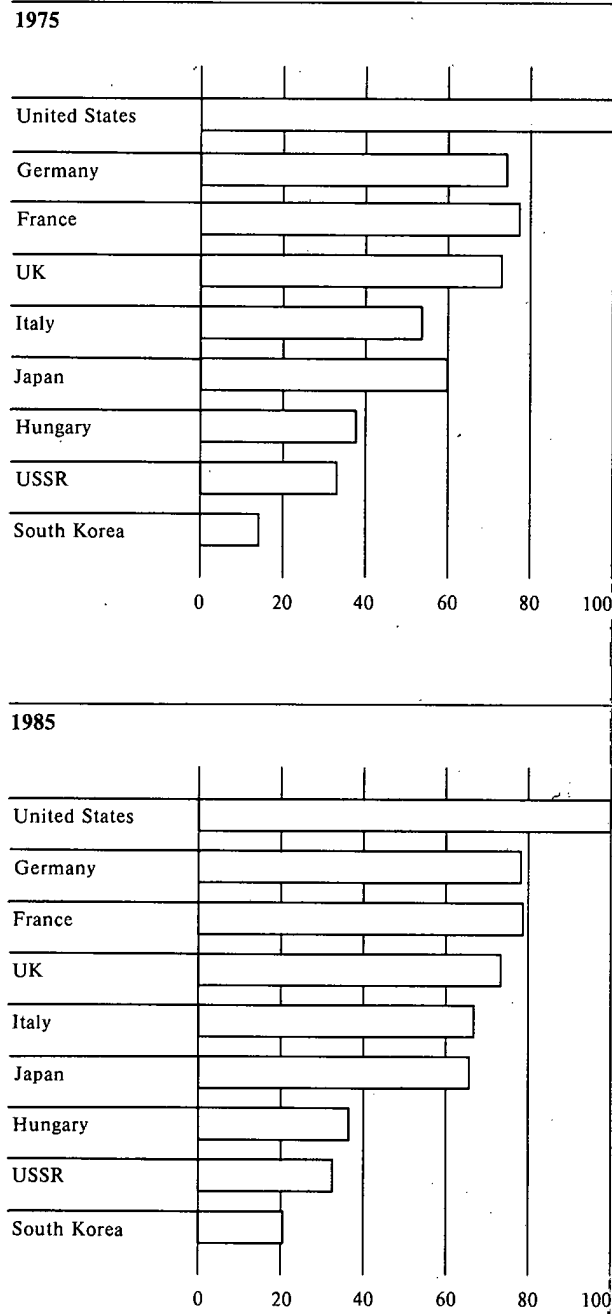
25X1

25X1

Confidential

Figure 2
Soviet Per Capita Consumption
in a Global Perspective

Index: United States = 100



Source: *The Soviet Economy in a Global Perspective*, a report in preparation in the Office of Soviet Analysis

317403 6-88

Table 1
USSR: Declining Marginal
Investment in Consumer-
Oriented Sectors ^a

Billion 1984 rubles
 (except where noted)

	1971-75	1976-80	1981-85
Increase in total investment	164.4	154.9	125.5
Increase in investment in consumer-oriented sectors	80.6	66.8	53.5
Share going to consumer-oriented sectors (percent)	49.0	43.1	42.6

^a Agriculture, housing, light industry, food processing, and services. Services are defined as total investment in the nonproductive sphere, including communal, personal care and repair, science, education, culture, art, health, social welfare, physical culture, and tourism services, but excluding housing.

Source: *Narodnoye khozyaystvo SSSR (Narkhoz) 1985*.

Even those who have reaped some gains in income since 1975 have faced higher living costs and aggravation (see inset).¹ Evidence of a higher cost of living is most obvious in collective farm markets, where prices have consistently trended upward.² Black-market activity, too, has expanded and prices have increased;

under-the-counter meat now sells for three times the retail price.

Since 1977 seven rounds of official retail price hikes have been applied to a variety of goods not considered "necessities," ranging from gasoline and alcohol to taxi fares and construction materials. For example, according to Western surveys of official retail prices,

¹ Despite a 43-percent increase in per capita disposable income between 1975 and 1986, price increases averaging 2 percent per year limited the increase in real per capita income to 14 percent.

² Our index of prices in collective farm markets in Moscow, for example, shows an average annual rate of increase of 5.5 percent in 1976-85.

Pre-Gorbachev Trends in Availability of Food, Housing, and Services

Food

Although considerable gains in food consumption were made in the 1960s and early 1970s, agricultural shortfalls checked this progress in the late 1970s and early 1980s.^a Lengthy queues and informal rationing became widespread, and the incidence of strikes related to food shortages increased in the 1980-82 period. By the time Gorbachev came to power in March 1985, improved agricultural performance since 1982 had led to some success in boosting food supplies. Output of meat and milk hit new highs in 1983 and 1984. [redacted]

The USSR's food problem had not disappeared, however, as Gorbachev was well aware. Large quantities of meat, sugar, grain, and other products were still being imported to support consumption levels. The share of net imports in the per capita availability of net farm product rose from 1 percent in 1970 to 10 percent in 1984. Hard currency outlays for farm products cost Moscow \$9.5 billion in 1984, equivalent to 34 percent of total hard currency imports. [redacted]

Moreover, rising incomes continued to push up demand, especially for "quality" foods such as meat and fresh produce. For example, per capita disposable money income in 1984 was 36 percent higher than in 1975, while per capita availability of meat was only 6 percent higher. Excess demand for quality foods is reflected in prices at collective farm markets, where individuals can sell the surplus from their private plots and where prices reflect supply and demand. Prices paid in these markets are on average more than double state retail prices. [redacted]

Housing

Gorbachev also inherited a consumer situation marked by substantial unsatisfied demand for more and better quality housing. According to Soviet official data, about 15 percent of the urban population still lives in shared communal apartments, which provide a family only one or two rooms to themselves. [redacted]

Bathrooms and kitchens are shared among two or three families. Another 3 percent of the population lives in dormitories for single people or young married couples, where there is little privacy. Multigenerational families are routinely crowded together involuntarily in the same apartment. [redacted]

The condition and quality of the housing stock also is widely lamented by citizens, judging by complaints in the Soviet press. According to Soviet data, over half of all housing units lack complete plumbing and as many as 60 percent lack piped hot water. [redacted]

The housing deficit persists, as construction of new apartments has not kept pace with the creation of new families through marriage:

	Marriages (thousand)	New Housing Units (thousand)
1975	2,723	2,228
1980	2,735	2,004
1984	2,628	2,008

During 1981-84, for example, the number of marriages exceeded the number of new units added to the housing stock by some 3 million. [redacted]

Everyday Services

Shortages of everyday services—from beauty parlors to laundries to auto repair shops—also contributed to the frustrations of Soviet daily life. Although per capita availability of services had roughly doubled in the 1960s and 1970s, per capita expenditures on consumer services still amounted to roughly only one-fourth of the level Soviet planners regard as the "rational" standard of consumption. Shortages and deficiencies in quality in the state sector mean that consumers must resort to purchases of services in the private sector. We estimate that almost one-third of all consumer services are provided by black-market activity. [redacted]

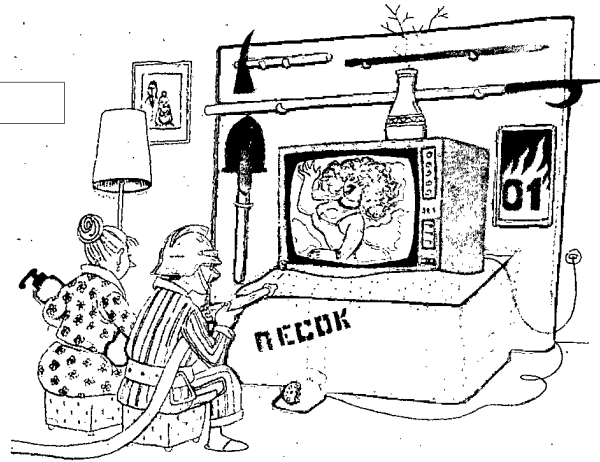
the price of razor blades increased 1.5 times between 1982 and 1986; a package of 10 now costs the equivalent of two and a half hours of wages for the typical Soviet worker, versus one hour in 1982. [redacted]

Prices on a range of products sold through state stores, including many necessities, have also been increased through indirect means. Low-priced grades of specific products often disappear from the stores, forcing consumers to substitute more costly grades; in addition, marginally improved "new" products often are assigned disproportionately large price increases. For example, a recent article in *Literaturnaya gazeta* reported that low-priced men's suits and shirts can no longer be found in stores, although official statistics report a price decline for such goods in recent years. Moreover, the marginal improvements are often cosmetic, while the quality of basic construction remains shoddy (see figure 3). According to consumer complaints published in the press, various processed foods have been repackaged as "new and improved" products and sold at higher prices.³ [redacted]

Not only is the Gorbachev regime faced with flagging output and inflation in consumer goods and services, it also must cope with the changing attitudes of a younger and more restive population. Today, nearly two-thirds of the Soviet population is under 40. These citizens, having grown accustomed to the steady increases in living standards that prevailed for nearly three decades following World War II, are more vocal than their forebears about the system's shortcomings and are probably more cynical about the regime's ability to turn the situation around. [redacted]

³ We estimate that retail prices rose at an average annual rate of about 2 percent during 1976-85, compared to the official figure of 0.8 percent. Soviet price indexes have been severely criticized in the past by both Soviet and Western economists. [redacted]

[redacted] the official indexes are faulty because they are constructed using a fixed sample of commodities and state list prices rather than prices of actual transactions. Soviet economist Oleg Bogomolov has also recently criticized Soviet price indexes. In a September 1987 article in *Moscow News* he suggested that the increase in consumer prices during the last 25 years has averaged about 3 percent per year. There are other Soviet estimates of the increase in consumer prices in the 1970s and 1980s. Soviet economists of Gosplan's economic research institute estimated in a January 1988 article in *Voprosi ekonomiki* that consumer prices in 1971-83 grew at an average annual rate of 2.8 percent. [redacted]



РАСПРЕДЛОЖЕНИЕ КРОКОДИЛА: Меры безопасности для цветных телевизоров.

Рисунк Е. ГУРОВА.

Figure 3. "Safety precautions for using color televisions." The shoddy quality of consumer goods is a common complaint in the Soviet press and the butt of jokes and cartoons. According to the Soviet newspaper *Ekonomicheskaya gazeta*, some 33 percent of all televisions produced by the Ministry of Communications Equipment in 1986 were defective, including 43 percent of all color televisions. According to *Ogonek*, defective televisions caused 18,000 fires between 1980 and 1986, killing 926 people. [redacted]

While the gains of earlier eras have been recognized by the populace, these gains have done as much to stimulate popular desires for a better life as to satisfy them. Indeed, the emptiness of official promises of greater gains to come during the waning years of the Brezhnev regime prompted bitterness and resentment. The sense that the material circumstances of life were stagnating or deteriorating in the late 1970s and early 1980s contributed substantially to a deep social malaise and disillusionment with the regime.⁴ Reversing this sentiment may pose the greatest challenge to Gorbachev's program to elicit more effort from the Soviet work force. [redacted]

[redacted]

**Gorbachev's Early Strategy: Boosting Consumption
"On the Cheap"**

From the beginning of his tenure, Gorbachev clearly has wanted to improve living standards for the Soviet consumer. However, he initially emphasized that the gains were to come through increased efforts of Soviet citizens, not through bigger handouts or a major reordering of resource allocation priorities by the state. Accordingly, his early initiatives focused on disciplining laggards and drunks whose indifferent attitudes but equal wages contributed to cynicism and resentment among conscientious workers and managers. He appealed to the latter by attempting to link remuneration to productivity—a wager on the strong. But he also counseled patience, exhorting the populace to work harder and more efficiently and not to expect too much too soon. [redacted]

The unveiling of the 12th Five-Year Plan (1986-90) confirmed his intent to hold gains in consumer welfare hostage to better performance by the work force.⁵ In the course of getting the five-year plan under way, Gorbachev indicated that major improvements in living standards must wait until the modernization campaign pays off in the 1990s, when economic growth rates are planned to be higher and advanced machinery available for consumer industries.⁶ In a speech before the Supreme Soviet in June 1986, Premier Nikolay Ryzhkov confirmed that the share of consumption in national income was planned to decline in the 1986-90 period. As late as February 1987 in a speech in Riga, Gorbachev warned that his plans for restructuring the economy had just come into effect and would take time to be fully implemented. In the meantime, Soviet citizens would have to tighten their belts for the next two to three years and work harder. If they held out through this "very difficult" period, he promised they would see an improvement in their standard of living in the 1990s. [redacted]

The Gorbachev leadership has attempted to do more for consumers with a variety of measures, discussed in detail in appendix B. Many of these have been tried

⁵ See appendix A for specific consumer-related goals for the 1986-90 period. [redacted]

before with little success. They include pressuring heavy industry to produce consumer goods, jawboning local officials into taking more responsibility for consumer welfare, improving the state trade network, providing more decisionmaking authority to producing enterprises, and building on the Brezhnev Food Program. In addition, Gorbachev has introduced some new, largely administrative measures, such as bureaucratic oversight of the consumer sector and a tough new system of quality control. In one of his most significant reform efforts, Gorbachev has also moved to boost consumption "on the cheap" by expanding the role of private activity in providing consumer goods and services. Finally, he has launched an effort to increase construction of new housing and service facilities, in part by calling on local authorities, enterprises, and private individuals to build more housing but also by reallocating some resources away from heavy industry. Since March 1985 the leadership has initiated a veritable hodgepodge of consumer-oriented decrees and resolutions to implement these measures (see appendix C). [redacted]

The number and variety of these measures suggest that, rather than developing an overall strategy, the Gorbachev leadership opted to try a plethora of different policies in the hope that at least some would prove effective. The risks of this approach, however, include a lack of focus and a dilution of the impact of any individual policy. [redacted]

Assessing Gorbachev's Initiatives

Soviet citizens have little to cheer about after three years of Gorbachev's leadership. The Soviet consumer scene is still marked by lengthy queues, rationing of some goods, pervasive black-market activity, and shortages of even basic necessities. The slow gains in living standards characteristic of the Brezhnev years have slid to a halt under Gorbachev. While the General Secretary has succeeded in producing a miniboom in housing construction, the resulting increases have not been enough to compensate consumers for lack of progress in other areas of their well-being or for the devastating impact of reduced alcohol sales and cutbacks of imports (see figure 4 and inset). According to CIA estimates, the Soviet consumer at

25X1

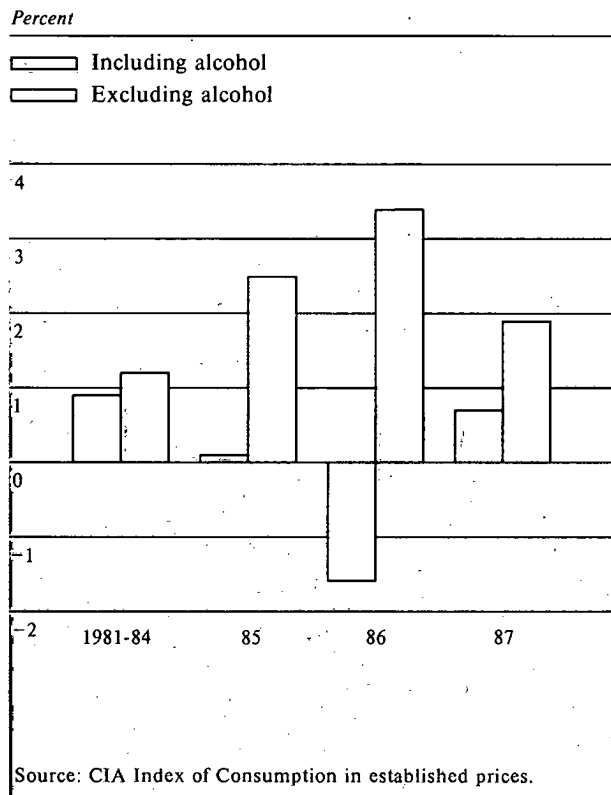
25X1

25X1

25X1

25X1
25X1

Figure 4
USSR: Average Annual Growth of Per Capita Consumption, 1981-87



317494 6-88

the end of 1987 was somewhat worse off than he was in early 1985 when Gorbachev assumed the post of General Secretary. Per capita consumption stagnated in 1985 and declined by 1.6 percent in 1986 (see inset on next page). Growth in 1987 was less than 1 percent.

In some respects, daily life has become even harder. The antialcohol campaign has deprived citizens of their most common means of escape from the harsh realities of Soviet life, while the oft-proclaimed benefits of socialism—job stability, free health care, access to higher education, and low, stable prices for basic necessities—can no longer be considered certain. Soviet citizens now face additional trauma at the workplace, as the regime has called on labor to contribute to the modernization effort by learning how to work

Cutbacks of Imports Make A Bad Situation Worse

Gorbachev's decision to reduce imports of consumer goods in 1986 in response to the deterioration in Soviet terms of trade further exacerbated the stagnation in domestic output of consumer goods and services and resulted in widespread shortages of a variety of imported goods, from coffee to footwear. Imports of consumer goods played a substantial and growing role during the Brezhnev years in maintaining growth in consumption. For example, in 1970 imports represented about 7.5 percent of all retail sales, but by 1984 they were about 20 percent. Eastern Europe—the largest nondomestic supplier of consumer goods—provides one out of five pairs of shoes purchased by Soviet shoppers and 15 percent of all clothing, according to a Soviet journal. Such imports tend to be of higher quality than Soviet goods and are especially sought after by shoppers. Imports—which are sold to the populace at some four times the price at which they are purchased abroad—have also played an important role in absorbing excess purchasing power.

Lower world oil prices reduced Soviet exports and led to a fall in total Soviet imports of 10 percent in 1986. Total imports of consumer goods fell by the same percent, reflecting reduced purchases in the West of some 35 percent. Imports from Eastern Europe grew by 2.7 percent, far below the average annual rate in 1970-84 of almost 10 percent.

harder and more efficiently. Reforms introduced in 1987 have resulted in lower wages and stricter performance requirements for some workers and have contributed to popular disillusionment with economic restructuring and, in some cases, to work stoppages (see inset on page 8).

Housing and Services: Bright Spots in the Consumer Picture

Gorbachev's focus on improving housing has produced a miniboom in construction of housing and services facilities. Housing construction in 1986 and 1987 reached alltime Soviet highs, and recently released

25X1
25X1
25X1

25X1
25X1

Trends in Consumption Under Gorbachev

The slow growth in per capita consumption in 1985-87 stems largely from reductions in purchases of alcohol, which in 1984 accounted for one-fifth of total expenditures on food. While legal sales of alcohol fell by 37 percent in 1986 and by another 13 percent in 1987, other key consumption expenditures have grown slowly at best. [redacted]

Food

Soviet consumers have seen little improvement in their diets since Gorbachev became General Secretary. Per capita consumption of food (excluding alcohol) increased on average 1.5 percent per year during 1985-86. Gains occurred in consumption of especially sought-after "quality foods." Per capita meat availability increased by 2.5 percent per year in 1985-86 and per capita consumption of fruit jumped by 17 percent in 1986. Some tightening of the food situation occurred in 1987, however. Supplies of milk and dairy products were up by 4 percent, but per capita meat availability grew by only 1 percent and sales of potatoes and vegetables through the retail trade network fell by 1 and 5 percent, respectively. [redacted]

Embassy and Western press reporting as well as emigre accounts indicates that queues and rationing for some products continue. For example, while Gorbachev has held down growth in per capita disposable incomes, meat supplies are not yet adequate to satisfy demand at current prices. In a number of decrees and statements Moscow has shown acute frustration that food availability is not growing fast enough and that a large proportion of the total harvest continues to be wasted. A Pravda editorial on food supply in Moscow and Leningrad complained that in 1987 the Moscow Agroindustrial Committee wrote off 22 million rubles worth of spoiled produce, the same amount as in 1986. In late August the Politburo said food production must be increased "substantially and within the shortest possible time." Furthermore, Moscow continues to rely on costly imports of foodstuffs to support consumption levels. The share of net imports in per capita availability of net farm product was 10 percent in 1986. [redacted]

Services

Per capita consumption of "paid" services targeted in the Consumer Goods and Services Program—transportation, communication, repair and personal care, and recreational services—increased by about 3 percent in 1986. This was higher than the average annual growth rate of 1981-85, but about the same as that of the 1976-80 period and lower than that of 1971-75. Moscow has expressed disappointment with the lack of response on the part of industrial enterprises in providing services. At a special Central Committee conference on consumer goods and services in May 1987, the secretary for consumer matters, Aleksandra Biryukova, criticized the "formalistic approach" many industrial enterprises were taking toward services. Noting that in 1986 only a third of all ministries met their services goals, she concluded that "despite all the decisions that have been adopted, Union Republic Councils of Ministers and local Soviet organs are very poor at organizing work to expand paid services." [redacted]

Consumer Durables

Moscow has had little success in boosting availability and, perhaps more important, the quality of consumer durables. We estimate per capita consumption of these items grew at an average annual rate of about 6 percent in 1985-86, an improvement over average growth rates in 1981-85 but a decrease from 1971-75. Availability of durables grew much more slowly in 1987 as production was hit hard by the new quality campaign. Output of radios, televisions, refrigerators, and motorcycles, for example, stagnated or declined from 1986 levels as quality inspectors rejected substandard output. [redacted]

Housing

The Soviets constructed some 120 million and 130 million square meters of living space in 1986 and 1987, respectively, the largest increments to the housing stock in the post-Stalin era. Construction of housing will more than meet the latest 12th Five-Year Plan target (released in February 1988) if growth rates achieved in the 1986-87 period are maintained. [redacted]

**Worker Dissatisfaction With
Economic Restructuring**

While the population may support economic restructuring in principle, many workers have voiced complaints when specific measures have adversely affected their living standards and working conditions:

- *A Soviet Academy of Sciences survey published in Izvestiya shows that, while 90 percent of the population supports restructuring in principle, most workers do not believe they have benefited from it. According to a poll published in Sotsialisticheskaya industriya, only 28 percent of workers queried believed their wages would go up if they worked harder.*
- [redacted] *there is substantial worker dissatisfaction with Gospriyemka and that it has bubbled to the surface in a few instances. Soviet officials report increased complaints about unpaid overtime for corrective work and persisting "conflicts" between inspectors and plant employees. Recent statements in the Soviet press indicate, moreover, that there have been at least five cases of work stoppages and that on at least two occasions workers left their jobs temporarily because of the tough new quality standards.*
- [redacted] *widespread popular resentment among workers toward higher prices and reduced availability of alcohol.*
- *The Soviet press has published letters from workers charging that the new wage system is "socially unjust." Others complain that enterprises have cut bonuses and demoted workers to lower grades in order to introduce higher pay scales. Work norms have been raised, making bonuses harder to get.*

[redacted]

economic data show that housing and the sectors providing consumer services received an increased share of investment resources in 1986 (see table 2).⁷ Investment in housing alone increased by about 10 percent, somewhat higher than the rate registered for total investment. Investment in "nonproductive" services increased by over 11 percent, more than three times the average annual rate of growth in 1981-85. Construction of schools, preschools, and clubs was also above the average annual levels for 1981-85.

[redacted]

25X1

Moscow still has far to go, however. In Leningrad, for example, one-half of all families still live in communal apartments and can expect at least a 10-year wait for their own dwelling, according to a recent article in a Leningrad newspaper. The Soviet statistical authorities reported in January that, nationwide, some 13 million families and individuals are on waiting lists for better housing. The same report indicated that in 1987 "preschool institutions could accommodate only 58 percent of children in the relevant age group." Other basic consumer services also remain underdeveloped. A recent *Pravda* article noted the case of one war veteran who, after a 22-year wait, still does not have a telephone.

[redacted]

25X1

25X1

Moscow has indicated it intends to continue emphasizing investment in housing and services, but finding the resources will be difficult. Articles in Soviet economic journals suggest that some of the increase in investment in housing and other consumer-oriented facilities has been financed by reductions in investment for retooling and reconstruction. Preliminary data for 1987 indicate, for example, that investment in retooling and reconstruction of industrial enterprises grew more slowly than investment in housing. To keep up investment increases of 10 percent or more in housing and services, however, would require even further diversions.

[redacted]

25X1

25X1

25X1

⁷ See appendix A for data on annual increments to the housing stock.

[redacted]

25X1

Table 2 *Average annual rate of growth, percent*
USSR: Growth of Investment in "Nonproductive" Sector

	1971-75	1976-80	1981-85	1985	1986
Nonproductive investment	7.5	4.0	2.6	4.6	10.5
Housing	7.1	4.0	1.9	5.9	10.0
Other services ^a	7.9	4.0	3.3	3.0	11.1

^a Investment in the nonproductive sector can only serve as a rough indicator of trends in total investment in consumer services. It includes investment in some areas not considered a consumer service, such as science, and omits investment in some services classified by the Soviets as part of the "productive" sphere of the economy, such as some personal care and repair services.

Source: *Narkhoz 1986*.

[redacted]

Minimal Support From Heavy Industry

Saddling enterprises with new targets for consumer goods production has proved unsuccessful because it does not relieve enterprises of their obligation to meet primary output targets. In particular, demands on heavy industry to meet high output targets to support Gorbachev's modernization program will have much higher priority for enterprise managers than finding ways to produce consumer goods. With the heavy emphasis in the 1986-90 plan on conserving raw materials, fewer "hidden reserves" are likely. The ability of local officials to support increased production of consumer goods and services will also continue to be circumscribed by their lack of access to needed resources. [redacted]

The lack of responsiveness of industry and local officials has drawn top-level criticism. [redacted]

[redacted] enterprises in heavy industry "have failed to tackle in earnest the tasks of producing consumer goods" and that in the machine-building sector only one in five enterprises produces consumer goods. [redacted]

[redacted] in 1986 the production of consumer goods per ruble of the wage fund decreased in all republics without exception. [redacted] In practice, there is evidence in many cases of an inability [of

local authorities] to exercise the rights that have been granted. Instead of resolving tasks independently, comrades prefer to turn to central agencies and ask them to allocate additional resources to fulfill the goods turnover plan. [redacted]

25X1

Moscow is also dissatisfied with the level and quality of defense industry support to the consumer sector. In June 1987 Gorbachev criticized two ministers in the defense industry for not meeting consumer goods targets.⁸ [redacted]

25X1
25X1

[redacted] the Soviet Planning and Budget Commission said the defense industry had not made its "expected contribution" to the retooling of light industry. He added that the leadership had pinned considerable hope on the defense industry and that the sector's leaders should be called strictly to account. Premier Ryzhkov at an October 1987 conference called on the defense industries to support the effort to reequip the food-processing sector. [redacted]

25X1

Reforms Run Into Interference

Management innovations introduced in 1987 in retail trade and light industry aimed at making producers more responsive to consumers' needs have not yet produced the hoped-for results. According to articles in the Soviet press, the new reforms in light industry have already encountered problems akin to those that led astray the similar reform efforts of the Brezhnev era. For example, output plans for light industry are supposed to be established in accordance with orders from the trade sector, but instead are still being handed down by ministry officials. Emphasis on making and fulfilling contracts between trade organizations and factories has not resulted in improved quality or availability of consumer goods. In fact, according to the State Committee for Statistics, the Ministry of Light Industry paid 500 million rubles in fines for delivery shortfalls in the first nine months of 1987. Moreover, the pressure to meet sales goals means that trade enterprises will accept low-quality goods as long as the store has some chance of selling them. [redacted]

25X1

25X1

25X1
25X1
25X1

25X1

⁸ The ministers were Erlen Pervyshin, Minister of the Communications Equipment Industry, and Petr Pleshakov, former Minister of the Radio Industry. [redacted]

25X1
25X1
25X1

Mixed Results From Quality Control

The new system of quality control—*Gospriyemka*—may generate some improvements in product quality, although at the expense of quantities. We estimate production of consumer durables dropped 2.1 percent in 1987, in part because of more stringent enforcement of quality standards. In a recent *Izvestiya* interview, Boris Sokolov, a first deputy chairman of the State Committee for Standards, admitted that quality standards were eased last year, belying Moscow's tough public stance on the issue of product quality. [redacted]

Private-Sector Initiatives Off to a Slow Start

Gorbachev's private-sector initiatives hold the greatest potential for spurring improvements in the quality and availability of consumer services. The legislation constitutes one of the regime's most significant reform steps and reflects Gorbachev's willingness to confront past economic orthodoxy in an effort to improve consumer welfare. Evidence so far, however, suggests that the new measures have gotten off to a slow start.⁹ At the party plenum in June 1987 Gorbachev acknowledged that many people are eager to join cooperatives or engage in self-employment, but the process of expanding private economic activity is "proceeding with great difficulty and very slowly." In 1987, cooperatives produced less than one-tenth of 1 percent of all goods and services purchased by consumers, [redacted] Gorbachev said in January 1988 that more than 300,000 people are registered as self-employed but "in a country such as ours this is not very much." [redacted]

Expansion of private business has been hampered by the negative attitudes of citizens and officials toward legal private business and its often high incomes, which offend the egalitarian instincts of many Soviet citizens. For example, one woman interviewed in the press complained that her neighbor was getting rich from self-employment. When it was pointed out that the neighbor had earned her money through hard work, the woman replied, "But I don't want to live like her. I want HER to live like me." Several

[redacted]

cooperatives have been closed by authorities for alleged ideological problems, including making too much money. According to Soviet press reports, would-be entrepreneurs have encountered considerable bureaucratic foot-dragging and redtape in their efforts to engage in private or cooperative business. [redacted]

Efforts to promote legal private business have also been constrained by the reluctance of citizens to register. Potential entrepreneurs harbor fears, based on history, that the regime's stance could be short lived and that those who opt for legal activity now would suffer the consequences later. Furthermore, those who have long been active in the illegal private sector without registering or paying taxes see little incentive for cutting into their profits. For example, unlicensed cabdrivers told Embassy officers in Moscow that the chances of being penalized are low. [redacted]

Confusion among officials and the populace apparently exists over what is permissible. A Moscow cooperative member told Embassy officials that the laws are so vague, the members operate "in constant uncertainty over whether they are keeping within legal or acceptable bounds." The leadership has attempted to reassure would-be entrepreneurs, most recently by approving a draft law on cooperatives that bolsters the ideological and legal underpinning of such activity. But the draft is long, repetitive, and vague in many places and thus does little to clarify the legal parameters of such activity. Moreover, recent leadership statements point up traditional concerns about "excessive" incomes earned by private businesses that are not encouraging to private initiative. In March Gorbachev condemned cooperatives that "take advantage of shortages to engage in blatant money grubbing" and called for higher taxes on cooperative income. [redacted]

Shortages of needed materials and equipment also have made it difficult for private businesses to get off the ground. Most of the burden of outfitting private business is placed on local government and supply

25X1

25X1

25X1

25X1

25X1

25X1

25X1

Confidential

agencies who generally lack both the incentive and the means to meet those needs. Local authorities are primarily concerned with accommodating the interests of local state-owned and -operated enterprises whose economic performance is critical to their personal success. [redacted]

Food Program Falters

The leadership has expressed disappointment with the results so far of the Food Program. Gorbachev, in a speech to the Central Committee conference on food processing in October 1987, said that "the new methods of management [in agriculture] are so far proceeding with difficulty." A September Central Committee resolution on the Food Program notes that "the great potential that exists for rapidly increasing food supply is far from fully utilized" (see inset). [redacted]

Moscow has expressed particular concern with the failure to follow through on the Food Program's plans for an investment shift away from the farm and toward food processing, packaging, and storage facilities and the transportation network. At the conference on food processing, Premier Ryzhkov stated that "the processing sectors of the agroindustrial complex have in their development lagged chronically behind the economy's needs" and that "the gulf is constantly increasing." The processing industry has become "a major brake on further growth of production of food products." According to Ryzhkov, commissionings of food-processing capacities fell sharply during the 11th Five-Year Plan and "the situation is not improving in the current five-year plan." [redacted]

Putting More Teeth in the Program

By mid-1987 Gorbachev and other leaders seemed to recognize that they could not get by on the cheap and that, unless they secured the support and commitment of the work force, all efforts to reorganize, modernize, and energize the system would come to naught. At the special Central Committee conference on consumer goods and services held in May 1987, the leadership indicated acute frustration and irritation that the variety, quality, and general availability of consumer goods and services were not improving as planned. Party secretary Yegor Ligachev complained of the

The Galloping Gourmet: Slowed to a Trot in Moscow

One daring young US Embassy officer set off to catch a glimpse of Soviet life by shopping and preparing a meal as an ordinary Soviet citizen would—relying on local shops and doing without car or food processor. The resulting dinner for six required seven hours of shopping, seven and a half hours of preparation, and cost some 66 rubles—well over 25 percent of the average Soviet monthly wage. The adventure took the following course:

- Day 1 Purchased 15 pounds of dry goods and juice in state store, as well as two pre-packaged cake mixes (declining advice to purchase at least 10—enough for 80 desserts). Length of line: 35 persons. Total time: 30 minutes.*
- Day 2 Purchased champagne and then joined 35-person line for vodka, due to go on sale in 40 minutes. Some 35 minutes later, line had grown to 175 people. As sales began, crowd rushed forward. Pushing and shoving intensified but officer, clinging to cashier's booth, successfully made her purchase. Total time: 90 minutes.*
- Day 3 A visit to two state stores resulted in purchases of apples, potatoes, butter, and cheese. One-fifth of purchased produce turned out to be spoiled. Length of line: 10 persons. Total time: 45 minutes.*
- Day 4 Still left with the bulk of the ingredients to be bought, officer spent much of her day off at the collective farm market, where prices are higher than in state stores. Spent two hours standing in rain to purchase frozen chicken. Total time: 225 minutes.*
- Day 5 Visits to several local stores resulted in final purchases. Total time: 30 minutes.*
-

25X1

25X1

25X1

25X1

Confidential

“mounting” imbalance between purchasing power and available goods and services, adding that this “tension” has become “a brake on development of the economy” that “blocks the human factor and reduces people’s interest in highly productive labor.” Wages in fact have grown faster than retail sales of goods and services over the last few years (see table 3). [redacted]

Gorbachev, in his June 1987 speech to the Central Committee, called to task heads of ministries in consumer-oriented sectors for not meeting output plans (see inset). He indicated that the consumer has seen little payoff so far from restructuring, adding that “it is now necessary, unfortunately, to deal with a situation in which there is much talk about the benefit of restructuring but little practical action to satisfy people’s most simple needs.” Gorbachev returned to this theme at the October Central Committee conference on food processing, stating:

If simultaneously with this [modernization] we do not solve the urgent tasks, those which concern the people’s everyday life, people will not understand us. One cannot live by hopes alone. Many problems have to be solved today.

[redacted]

Accordingly, Moscow is trying to put more teeth into its program for the consumer:

- *Gorbachev’s speech at the June 1987 plenum.* The General Secretary said that 40 billion rubles of “material resources” above the planned sum for 1986-90 had been allocated for “the social sphere”—presumably housing and services.
- *The 1988 plan.* The economic plan for 1988, according to former chairman of Gosplan Nikolay Talyzin, calls for a shift in investment resources from the “material production” sectors to housing construction and other consumer-oriented facilities. Goals for construction of preschools, retirement homes, clubs, and theaters were raised some 18 percent above those originally intended for 1988 in the five-year plan, as were output goals for food and soft goods.

Table 3
USSR: Growth of Wages and Retail Sales ^a

Average annual rate of growth, percent

	Wages ^b	State Retail Sales
1971-75	5.9	6.2
1976-80	4.8	5.2
1981-85	3.4	3.7
1985	3.7	2.6
1986	3.1	2.3
1987	3.0	2.8

^a Growth rates are based on data in current rubles.

^b Includes wages of workers and employees and collective farm workers.

[redacted]

- *New health program.* The Politburo in November reviewed and approved a major new program aimed at restructuring the health care system. It calls for a 30-percent increase in investment in health care by the year 2000. According to *Izvestiya*, 5.6 billion rubles in excess of the original plan have been allocated to health services for the 1988-90 period.

- *Food-processing program.* At an October 1987 Central Committee conference, the leadership laid out ambitious plans to modernize and expand the food-processing industry, including formidable tasks for producers of machinery for food processing. Between 1987 and 1995 deliveries of equipment to processing plants are to nearly triple. Investment plans for the balance of the 1986-90 plan have been stepped up. By 1995 capacity for processing livestock products, vegetable oil, and canned fruits and vegetables is to be expanded by 30 to 50 percent.

[redacted]

25X1

25X1

25X1

25X1

Gorbachev on the Consumer Situation

General Secretary Gorbachev has often stressed the importance of improving living standards in order to provide incentives for harder work:

- May 1985. *In a speech to Leningrad party workers, he warned that increasing consumer goods and services has "immense social and political significance."*
- July 1986. *Gorbachev, calling for a "serious effort" to stimulate output of consumer goods, told the Khabarovsk Kray party that "if management forgets about social issues and the social sphere and puts them at the tail end of everything, then I am frankly saying that all our plans will be doomed."*

He has also emphasized, however, that hard work and sacrifice are required for any improvements:

- February 1986. *At the party congress he stated, "It is planned to raise the people's well-being to a qualitatively new level . . . but the most important thing must be said: These plans will become a reality only on the condition that every Soviet person works hard and efficiently. Every Soviet person, whatever work he does and whatever post he holds. What we ourselves do determines what we shall have and how we should live."*

The General Secretary until mid-1987 tended to stress that major improvements in living standards must wait until the modernization campaign pays off in the 1990s. By then, economic growth rates are planned to be higher and advanced machinery available for consumer industries:

- July 1986. *In Khabarovsk, he said, "in light industry, if we install today's equipment, . . . the growth as far as rates of productivity and quality are*

concerned will be 3, 4, 5, or up to 10 percent. But if we introduce the new equipment for which we are now creating a basis to produce this will enable us at the same enterprises, within the same walls, and with the same numerical strengths of labor collectives to create a minimum growth of 30, 40, or 50 percent."

- February 1987. *While touring Riga, Gorbachev stressed that restructuring will take time. Everyone will have to "put up with personal inconveniences" presented by restructuring. He said that "the next two to three years will be the most difficult. . . . During the next five-year plan, things will get under way fundamentally."*

By mid-1987, however, Gorbachev was expressing keen disappointment with the failure of efforts to provide more goods and services and had begun to stress the need to provide more immediate returns to consumers in order to spur support for restructuring:

- June 1987. *At the June plenum, Gorbachev strongly condemned the failure to increase supplies of goods and services and noted that "a large gulf" has formed between consumer demand and supplies.*
- February 1988. *At the Central Committee plenum on education the General Secretary warned that, while restructuring, "we must not lose touch with the people's everyday needs and requirements." In stressing the importance of improving supplies of food, housing, and services, he noted "the way our people feel, their consciousness, their mood, and their attitude to work, to party policy, and to restructuring largely depend on how these tasks are resolved."*

25X1

25X1

25X1

25X1

Confidential

- *Reorganization of machinery production for consumer industries.* Moscow has stepped up efforts to involve the defense sector in production for the consumer. For example, the food-processing conference called on the defense industries to increase production of food-processing machinery. The Military-Industrial Commission (VPK), together with the Bureau for Machine Building and Gosagroprom, has apparently been given oversight responsibility for the program. Moreover, the Ministry for Machine Building for Food and Light Industry and Household Appliances has been disbanded and its enterprises shifted to the defense industry sector. This appears to be the first time that the defense sector has been formally tasked with planning and monitoring a consumer program.

- *Shifting trade strategy.* Since 1987 Moscow has appeared to be scheduling increased imports of finished goods from Eastern Europe.¹¹ A February 1988 article in *Ekonomicheskaya gazeta* states that the share of soft goods and food in total Soviet imports from Hungary in 1988 will increase at the expense of machinery imports. The Soviets also recently obtained a \$2.1 billion line of credit with West German bankers to finance imports of machinery for consumer-related industries. We have no evidence, however, that Moscow has decided to increase imports of finished consumer goods from the West.

- *More resources for light industry.* Central Committee secretary Biryukova in mid-1987 announced that an increase of 25 percent is planned for investment in light industry in 1986-90. This would represent a substantial increase over past growth rates—investment in light industry grew by only 2 percent in 1981-85. [redacted]

Will the Teeth Have Any Bite?

The initiatives promising greater spending on consumer programs, if implemented, could result in gains in key areas of consumer well-being. For these initiatives to have any bite, however, the leadership will have to

[redacted]

follow through with the promised investment allocations and find ways to allocate even more. However, plans to substantially increase availability of goods and services will require further diversions of labor and investment from either industrial modernization or defense or both. According to Gorbachev and the 1988 plan, some resources intended for industrial enterprises have been diverted to support increased housing construction. It is unclear whether Gorbachev has yet mustered the political will to actually divert resources from defense, although evidence suggests he would like at least to reduce the growth, if not the level, of defense spending.¹² The test will come when detailed annual investment plans are being drawn up and good intentions must be backed up with the necessary resources. [redacted]

June 1987 Reform Package

The reform package approved by the Central Committee at the June 1987 plenum, if successfully implemented, could also put more teeth into Gorbachev's consumer program by encouraging producers to respond more effectively to consumer preferences. The major provisions of the reform package include a reduction in the directive role of central plans; redefinition of the functions of the central bureaucracies and ministries; expansion of the autonomy of enterprises; and a gradual conversion of much of the present system of rationing raw materials and capital goods to a reliance on wholesale trade. It also calls for a revision of the price and wage system and delegation of limited authority to ministries and enterprises to engage directly in foreign trade. The program represents the most comprehensive reform of economic management since the introduction of Stalinist central planning in the late 1920s. Through these reforms the leadership hopes to achieve a sharp acceleration in economic growth, a major breakthrough in productivity, and a drastic improvement in production quality, all of which are intended to benefit Soviet consumers and producers alike. [redacted]

[redacted]

25X1

25X1

25X1

25X1

25X1

Confidential

Real progress toward making producers more responsive to consumer needs, however, is far from assured. The economic reform package contains numerous ambiguities and contradictions that could subvert reform. More important, it fails to relieve the ministries of their *responsibility* for enterprise performance and hence perpetuates the incentive for ministerial "petty tutelage" that results in enterprise disdain for consumer needs. At any rate, the transition to the new procedures is likely to be highly disruptive and will limit gains in product mix and quality during the remainder of the 12th Five-Year Plan. [redacted]

Implications

As the leadership has come to realize, failure to provide perceptible improvements in the everyday life of the Soviet populace will seriously erode Gorbachev's program for economic revitalization. His ability to energize the Soviet economy will depend as much on whether he can convince or coerce a reluctant labor force to adopt new attitudes and work habits as it will on his ability to generate more and better capital goods for workers to use. As one Western observer puts it, "foot-dragging by workers may be a far greater threat to economic *perestroika* than foot-dragging by bureaucrats." ¹⁴ Workers will not exert extra effort or respond to opportunities for higher wages if they cannot translate their higher earnings into desired goods and services. [redacted]

Further implementation of economic reforms in 1988 will heighten the imperative to provide workers with more tangible benefits for their efforts. Many of Gorbachev's labor policies—including higher performance standards and work norms, increased wage inequalities, shift work, and layoffs—are traumatic to a population long accustomed to job security and to



the ethic, "We pretend to work, they pretend to pay us." The populace feels just as threatened by the prospect of a higher cost of living (see inset). Unless accompanied by perceptible improvements in the consumer's lot, implementation of Gorbachev's labor policies and plans for price hikes are likely—at a minimum—to:

- Increase worker apathy at the workplace.
- Result in increasing outbreaks of unrest and work stoppages.
- Exacerbate growing nationalist sentiments.

The Achilles' heel of Gorbachev's economic restructuring could thus turn out to be the indifference and frustration of Soviet workers. Gorbachev has several options for avoiding this problem, but exercising any of them would involve decisions that would be difficult or controversial to implement. [redacted]

Leadership Options

Given the shortcomings of the reform package adopted in June 1987, the Soviet economic system is likely to continue to suffer from well-known deficiencies associated with lack of market-based prices, weak incentives for innovation and resource savings, and state-owned means of production. Nevertheless, the regime still is capable of significantly increasing the living standards of its people through investment policies, imports, and promotion of the private sector, all of which could be undertaken within the limits of the current economic system. [redacted]

Increased Imports of Consumer Goods: The Short-Term Fix

Moscow could quickly increase the domestic availability of consumer goods by increasing purchases from Eastern Europe and the West. Trade policies can be adjusted fairly quickly and are reversible at low costs, presenting less risk than other policy changes. Thus, trade policies could be particularly attractive to the Kremlin as it searches for an effective strategy to promote consumption. [redacted]

25X1

25X1

25X1
25X1

25X1

25X1

Confidential

Retail Price Hikes: A Solution or a Problem ?

Soviet consumers are especially alarmed by the prospect of large price increases on food and services. The blueprint for reform laid down at the June plenum calls for a "radical" reform of wholesale, procurement, and retail prices that would reduce or eliminate the currently huge state subsidies on foodstuffs and some services. Moscow has promised that price changes will not reduce living standards of workers and will promote social justice for all. But the prospect of higher prices has already sparked considerable anxiety among the populace as seen in panic buying and hoarding, as well as the deluge of letters to the press from people expressing alarm at the potential of a higher cost of living. The leadership in response has launched the most concerted propaganda effort in years to educate the populace on the economic and social benefits of price hikes. [redacted]

Moscow has not yet announced when and how the increases will be implemented but, according to Soviet economists interviewed by US Embassy officials, no decision on prices is likely soon. A lively debate is currently being conducted in the press on whether prices should in fact be raised, or whether rationing would be a more socially acceptable means of dealing with shortages. At any rate, Gorbachev is clearly alarmed. The leadership has not raised prices on food since 1962, when price hikes on meat and butter sparked civil disturbances that were only quelled by intervention of the militia. As it considers the

political costs of price increases, Moscow will also have in mind the role of price hikes in spurring consumer unrest in Eastern Europe. [redacted]

In fact, many of the consumer measures introduced by Gorbachev have already raised retail prices or have the potential of doing so:

- Moscow in 1987 announced that bakeries are now producing a "new" and improved type of bread at a higher price. In letters published in the press, however, workers complained that bread quality in fact had not improved.
- Similarly, sales of "new" and "highly fashionable" clothing could be a source of inflation if the higher prices charged are not matched by higher quality. According to a Sovetskaya kul'tura article, "price tags intended for haute couture have been put on perfectly ordinary dresses."
- The March 1986 decree on management of the agroindustrial sector allows farms to sell up to 30 percent of their fruit and vegetables to consumer cooperatives and collective farm markets. [redacted] one intent of the decree is to raise the average price of food by selling less in state stores and more through the other channels, where prices are higher. [redacted]

25X1

25X1

25X1

25X1

25X1

Moscow could exercise the trade option in a number of ways:

- **Increase borrowing.** Given the current level of hard currency debt, we believe the Soviets could step up imports from the West with few financing problems. Most Western bankers would probably be willing to underwrite an increase given the size of the Soviet economy and Moscow's reserves of gold, oil, gas, and other natural resources.
- **Increase gold sales.** Given depressed oil prices and the lack of alternative sources of hard currency revenue, Moscow could increase gold sales to finance more imports from the West.
- **Reduce imports of machinery and equipment.** If Moscow is unwilling to increase gold sales or debt levels, greater imports of consumer goods would require cutbacks in other imports such as machinery and equipment.

Confidential

Confidential

- *Look to Eastern Europe.* Countries in the Council for Mutual Economic Assistance (CEMA) have long been the primary nondomestic source of Soviet consumer goods. Moscow is likely to look to CEMA first for assistance in bolstering consumer goods imports. [redacted]

Each of these strategies poses costs and risks to Gorbachev. Reduced purchases of machinery and other industrial goods in favor of consumer goods would mean slower investment growth and a slower pace of modernization. Such a decision would require a clear commitment to promote consumption at the expense of traditional priorities favoring defense and heavy industry. Increased borrowing and/or gold sales would require the leadership to overcome a traditional fear of the potential economic leverage such measures could give to Western governments and bankers. Furthermore, [redacted]

[redacted] Moscow is unwilling to incur higher levels of debt for fear of "becoming another Poland." Finally, the economic troubles being experienced by its East European neighbors may make Moscow uneasy about adding significantly to their strains, particularly since any dramatic increase in exports of consumer goods from Eastern Europe could force reductions in living standards in the Bloc and heighten the risk of political instability. Trade data of partner countries and annual Soviet reporting on trade will indicate whether Moscow has chosen any one or a combination of these options. [redacted]

Promotion of the Private Sector

Substantial relaxation of the rules and regulations on private-sector activity, along with high-level encouragement of such activity, could lead to substantial increases in the availability of consumer goods and services fairly quickly. Such encouragement might include eliminating key restrictions on self-employment and even allowing private entrepreneurs to hire four or five workers, as in Hungary. These measures would be even more effective if state resources were redirected to the private sector through increased retail sales. For example, greater sales of construction materials and hand tools through retail outlets would allow much greater housing construction and renovation by private individuals. [redacted]

Such actions, while holding much potential for greater economic activity and higher living standards, would mean the USSR would have to set aside major ideological tenets. For example, the role of the state as primary producer and attitudes toward personal profit and greater income differentiation would have to be modified to facilitate expansion of private-sector activity. Issuance of decrees and laws would not be enough. Gorbachev and the rest of the leadership of the Communist Party would have to strongly back any moves in this direction to ensure responsiveness on the part of local party and government officials and to persuade a cynical populace that these changes would not be subject to reversal, as has happened in the past. [redacted]

If the leadership wants to promote the private sector, we would expect to see the following indicators:

- *Further reductions in tax rates.* Allowing individuals to keep a larger share of the income earned in self-employment or cooperative activity would encourage greater participation in private business.
- *Reliable access to supplies.* Increased sales of construction materials and other equipment and supplies through the retail trade network would alleviate the supply constraint facing private businesses.
- *Reduced restrictions on labor participation.* A new draft law on cooperatives approved by the Politburo in February, for example, allows people who have been laid off from state-sector jobs to work full-time in cooperatives. Other steps could include allowing workers to voluntarily leave state jobs for full-time self-employment or cooperative jobs and allowing self-employed entrepreneurs to hire workers.
- *Fewer leadership statements on the evils of "money grubbing."* Most important, for individual initiative to be encouraged, citizens must perceive opportunities to make a lot of money and to spend it without incurring the wrath and indignation of the Soviet state. Gorbachev could promote a more tolerant attitude—among local officials and the populace—toward private entrepreneurs and cooperatives by not condemning the high "unearned" earnings of some private businesses and even by encouraging high incomes. [redacted]

Confidential

Confidential**Major Investment Shifts: The Long-Term Solution**

The Soviet economy is relatively well-equipped and manned to produce high-quality defense hardware and a wide range of basic industrial products, but is much less so for producing consumer goods and services. Ryzhkov recently noted that many food-processing enterprises are "decrepit" and were built before the revolution. To turn this situation around would take not only big shifts in resource flows and priorities, but also a long time. In the meantime, output of Soviet defense goods would have to be moderated. [redacted]

The impact on defense would start with necessary changes in the machine-building industry:

- The flow of resources to machine-building enterprises that currently produce equipment for the consumer goods sectors would need to increase. For example, shops producing equipment for the food-processing industry would need greater access to stainless steel and aluminum, whose availability is now limited because of defense priorities.
- Machine-building enterprises that produce general purpose machines would have to increase their deliveries to industries producing consumer goods at the expense of heavy industry and defense.
- Some machine-building enterprises, currently producing for heavy industry or the defense sector, would have to convert some of their capacity to production of equipment for the consumer goods sector. Other capacity would need to be converted to producing consumer durables such as heavy appliances and automobiles.
- A major push to modernize consumer goods industries would probably require increased imports of Western and East European equipment for light industry, food processing, and other consumer-oriented sectors. [redacted]

Once the additional, higher quality equipment started becoming available, greater construction resources would have to be allocated for installing it in existing factories and for building new enterprises. In addition, consumer goods enterprises would have to be given greater access to labor, energy, and other essential inputs. [redacted]

The shifts in priority needed to make major shifts in investment would have to be sustained 10 years or more to substantially increase supplies of consumer goods and services. Major investment shifts are inherently very costly because they imply corresponding structural changes in the production capacity of the machine-building industry. Moreover, other parts of the economy would also have to adjust their production capabilities in order to supply new and renovated consumer goods factories with industrial materials and other goods. Such changes in the production structure of any economy take years to occur and are hard to reverse. Thus, their implementation would imply a long-term deemphasis of industries serving defense. [redacted]

A Mixed Package

Gorbachev is likely to pursue a combination of these options. However, we believe he will need to act soon to provide consumers with perceptible improvements in their standard of living if economic restructuring is to succeed. While the benefits of promoting the private sector or increasing investment in consumer industries would most likely take years to develop, greater imports of consumer goods could have an immediate and noticeable impact on consumption levels. This option is already being promoted by prominent Soviet economist Nikolay Shmelev, who in a recent journal article called for a "substantial" increase in imports of consumer goods. Shmelev suggested that Eastern Europe could be pressed to export more or that greater imports from the West could be financed by selling gold, by borrowing, or by drawing down hard currency reserves. He argues that the fate of economic modernization depends on improving the lot of the consumer today: "Unless we are able to achieve something tangible and perceptible to everyone in the next year or two, the future of restructuring could be in jeopardy." [redacted]

Confidential

Confidential

Appendix A

Plans for 1986-90

Consumer Goods and Services

Production targets for nonfood goods and services in the Consumer Goods and Services Program released in October 1985 represent growth rates not achieved since the late 1960s or earlier (see table 4). Production of soft goods (primarily textiles and clothing) is planned to grow in 1986-90 at an average annual rate

more than double that in 1981-85. In addition to increased growth of consumer durables output in 1986-90, the program calls for:

- More household appliances, to reduce the time Soviet working women spend on housework.

Table 4

USSR: Trends in Production of Key Consumer Goods and Services and Consumer Program Goals

Average annual growth, percent ^a

	1966-70	1971-75	1976-80	1981-85	1986-90 Plan	1986-2000 Plan
Nonfood goods ^b	6.8	4.9	2.9	2.0	6.2	4.2
Soft goods	6.4	2.6	2.4	1.6	3.9	3.5
Textiles	3.5	2.4	1.4	2.5	3.0-4.4	2.9
Knitwear	5.9	3.1	2.7	1.2	5.3-6.2	4.6
Hosiery	-1.5	2.9	2.5	2.2	3.9	0.8
Footwear	6.9	1.5	1.3	1.2	2.7	1.2
Consumer durables	8.9	13.0	3.9	3.2	8.5	4.9
Radios	8.7	1.4	0.2	0.9	4.8-6.3	1.8-3.2
Tape recorders	21.4	16.2	3.8	8.9	4.4-5.2	2.7-3.3
Televisions	12.8	0.8	1.6	4.5	2.5-3.3	1.3-2.1
Of which:						
Color	0	66.5	30.9	12.2	10.7-11.7	3.2-4.1
Refrigerators and freezers	19.8	6.1	1.2	0	2.4-3.6	1.3-2.9
Sewing machines	11.8	-0.6	-0.5	4.2	9.9	5.4
Washing machines	8.9	-8.9	3.1	5.8	3.8	0.5-1.6
Vacuum cleaners	13.7	14.0	2.0	4.8	3.8-4.2	1.1-2.1
Services ^c	7.4	6.2	4.0	3.4	8.5	5.4
Personal care and repair ^d	7.5	5.4	5.0	4.0	7.0	6.2
Communications	8.6	6.4	4.7	3.8	5.8	7.2

^a Calculated in factor cost 1982 prices.

^b Includes soft goods and consumer durables.

^c Volume of paid services. Excludes such free services as health and education. Includes personal care and repair, personal transport, personal communications, housing and communal, tourism, sports,

legal and personal financial services, and services performed by consumer cooperatives. Measured in established 1982 prices.

^d Includes laundry and dry cleaning as well as automobile, housing, and other repair services and rentals of durables.



25X1

Confidential

- Better quality and product mix to meet consumer demand, including increased output of videocassette recorders from currently minuscule levels.
- Production of more spare parts to improve the servicing of consumer durables. Demand for automobile spare parts is supposed to be fully met by 1990.

No goal, however, is presented for the durable good most sought by the Soviet consumer—the automobile—suggesting that any increases in future production will be minimal. [redacted]

The program also calls for increases in the quality and availability of a wide range of paid consumer services.¹⁵ In addition, retail stores are to adopt more convenient operating hours, and more eating facilities are to be set up at places of employment. [redacted]

Food

The diet has been the focal point of Soviet consumer policy since Khrushchev. The Gorbachev leadership also views improvement of the availability and variety of food supplies as a priority. Central Committee secretary Ligachev in a January 1987 speech stated that “success of the regime’s consumer program depends directly” on the performance of the agroindustrial sector. Gorbachev has strongly endorsed Brezhnev’s Food Program, launched in May 1982 when Gorbachev was party secretary for agriculture, to improve the production, processing, and marketing of food products. The Food Program set goals—which have been for the most part incorporated in the 12th Five-Year Plan (1986-90)—for per capita food consumption in 1990 that would bring the availability of quality foods (with the exception of meat) to levels approaching, or even exceeding, those in the United States in the early 1980s (see table 5). Growth of output of processed foods in 1986-90 is planned to be almost double the rate achieved in 1981-85. [redacted]

Housing

The party’s new program promises a separate home for “practically” every Soviet family. The original target for housing construction in 1986-90 of 565-570 million square meters (m²) published in the draft plan

¹⁵ In the USSR, health and education services are largely free. Consumers pay for services such as personal transportation, communication, recreation, and personal care and repair services as well as some financial services—hence the category “paid services.” [redacted]

Table 5 *Kilograms per capita*
USSR: Food Consumption Goals (except where noted)

	1980	1985	1986	1990 Goal
Meat and meat products	57.6	61.7	62.4	70
Milk and dairy products	314	325	333	330
Eggs (<i>units</i>)	239	260	268	265
Vegetable oil	8.8	9.7	9.8	10.2
Vegetables	97	102	102	127
Fruits and berries	38	48	56	68

Sources: Various issues of *Narkhoz* and 12th Five-Year Plan documents.

[redacted]

was raised to 595 million m² in the final version of the plan and in December 1986 was revised to 620-630 million m². The final level of production would be 12 to 14 percent above that in 1981-85 (see table 6).

Restraining Demand

The 12th Five-Year Plan envisages greater curtailment in the rise of wages, which make up over three-fourths of total household incomes. Total wages for the state labor force are to rise by about 15 percent, compared with 18 percent in 1981-85, while wages of collective farm workers are planned to grow 18 percent.¹⁶ In order to keep growth of incomes in line with growth in availability of goods and services, retail trade turnover is planned to increase by 18 to 20 percent. Since this planned rate is higher than the planned increase in money incomes, the plan implies a slower growth of savings. [redacted]

¹⁶ A new wage system was introduced in Soviet industry on 1 January 1987. Wage increases are to be funded by the enterprises themselves through increases in productivity and savings in the wage fund created by releasing excess labor. The reform has the potential for allowing growth of income to get out of hand and to exceed planned increases. [redacted]

Confidential**Table 6**
USSR: Planned and Actual Housing Construction*Million square meters*

	1976-80	1981-85	1981	1982	1983	1984	1985	1986-90	1986	1987	1988
Planned	545-550	530-540	108.9	106.9	110.0	109.0	114.0	565-570	114.0	126.0	128.9
Revision I								590			
Revision II								620-630			
Revision III								630			
Actual	527.3	552.2	106.4	107.9	112.5	112.4	113.0	NA	119.8	NA	NA

Sources: Various issues of *Narkhoz* and 12th Five-Year Plan documents.

25X1

Appendix B

Gorbachev's Early Strategy

Since 1985 the Gorbachev leadership has attempted to improve the consumer's lot with a variety of measures, many of which have been tried before.

Adding Bureaucratic Oversight

The leadership in October 1986 established a special Bureau for Social Development attached to the Council of Ministers, apparently under the initial supervision of former Politburo member Geydar Aliyev, to oversee implementation of the Consumer Goods and Services Program and other societal measures. The bureau apparently has some responsibility for management of the consumer goods production and consumer services sphere, but lack of discussion on this organization in the Soviet press suggests its role has been minimal. [redacted]

Pressuring Heavy Industry

Gorbachev is continuing the campaign initiated under Brezhnev and elaborated on by Andropov to increase production of consumer goods by enterprises in heavy industry. Under Gorbachev, many enterprises have been instructed to provide more housing and consumer services as well:

- *October 1985 decree.* According to this measure, heavy-industry enterprises are required to produce a specified amount of consumer goods per ruble of the enterprise's wage fund. The measure was first introduced under the Andropov regime and is intended to encourage enterprises to utilize "hidden reserves"—leftover raw materials and idle capacity—for production of consumer goods.
- *September 1985 resolution.* All factories and places of employment have been assigned goals for providing various personal care and repair services to the general public. Resolutions issued during the Andropov tenure called for an expansion of such activity, but this is the first time that provision of consumer services has been made mandatory for all enterprises.

- *Housing decrees.* Joint party-state resolutions issued in April and May 1987 and an April 1986 decree call on ministries and enterprises to construct more housing and/or provide more housing repair services and utilities out of their own funds.
- *August 1987 decree on planning.* One of the 11 decrees approved by the Supreme Soviet at the June 1987 plenum, this measure requires all enterprises to construct housing and other consumer-oriented facilities and establishes norms for such construction.
- *Law on State Enterprises.* Approved by the Supreme Soviet in June 1987, this key document in Gorbachev's reform package requires all enterprises "regardless of specialization" to produce consumer goods and services. The law went into effect 1 January 1988.
- *Resolution on repair services.* A decree issued in December 1986 requires machine-building ministries that produce consumer durables such as household appliances and motorcycles to set up service and repair centers during the period 1987-90. [redacted]

Even the defense sector has been tasked to do more for the consumer. Party secretary and Politburo member Lev Zaykov said in mid-1986 that the leadership had decided to "make more active use" of defense industries in the 1986-90 five-year plan to produce civilian machinery and consumer goods. Premier Ryzhkov told the Supreme Soviet in June 1986 that Moscow intends to involve all machine-building ministries, including the defense industries, in the production of equipment for light industry. In February 1987 Gorbachev affirmed that the defense industry has been tasked with producing equipment for the light and food industries. [redacted]

Calling on Local Officials To Do More

Gorbachev also has called on local party officials to take more responsibility for consumer welfare:

- A decree published in June 1986 requires republic and local authorities to take greater responsibility for developing local infrastructure and programs to raise living standards.
- The decrees pressuring industry to undertake construction of housing and other consumer-related facilities also call on local officials to take steps to improve housing conditions. For example, the April 1987 resolution on housing utilities and repair states that control of the urban housing stock, utilities, and repair enterprises should be shifted from the ministries to the local soviets in order to promote greater efficiency by centralizing authority under one unit. Housing is currently managed primarily by industrial ministries, although efforts have been made since 1957 to give city soviets greater authority over local housing. [redacted]

Reforming Light Industry

Gorbachev's strategy for light industry relies primarily on a new system of industrial management introduced in January 1987 and intended to improve efficiency and quality of output by giving greater operational independence to managers. Other measures are also aimed at enabling producers to respond more effectively to consumer demand by providing factories with up-to-date information on popular preferences. [redacted]

Improving the Trade Network

The regime is calling on the state trade network to do its part to better meet consumer demand. A resolution issued in August 1986 lays out a new set of instructions for planning and management in state retail stores and in the consumer cooperative network. The decree, implemented in the Belorussian, Latvian, and Estonian Ministries of Trade on 1 January 1987 and extended to the rest of the country in July, calls for:

- Retail trade to exercise greater influence over formation of plans for consumer goods output; plans are to be based on orders made by trade enterprises at wholesale fairs.

- Enterprises to cover their expenses, such as workers' wages, out of their profits.
- Recruitment of more part-time workers—students, pensioners, housewives, or state workers wishing to moonlight.
- Local authorities to take greater responsibility for the planning and performance of trade enterprises within their purview.
- Evaluation of trade enterprises on the basis of fulfillment of plans for sales (exclusive of alcohol), commissionings of new capacity, profitability, and observance of plans for sales of a given mix of goods. [redacted]

The leadership has also called on the consumer cooperative network to better meet consumer demand. A February 1986 decree instructs the cooperative system to increase purchases of privately produced food. The former chairman of the consumer cooperative system, Mikhail Trunov, told the party congress in early 1986 that 3 billion rubles are to be invested in facilitating the procurement and processing of agricultural produce by the consumer cooperative network during 1986-90, as much as was invested in the past 20 years. [redacted]

Campaigning for Quality

In an effort to improve the quality of output, the USSR formally instituted a tough new system of quality control in January 1987 at 1,500 industrial enterprises, including producers of consumer durables and a small number of facilities producing clothing, textiles, and shoes. The program—known as State Acceptance (*Gospriyemka*)—targets plants and production associations producing primarily investment goods, but it also caters to consumer interests by encompassing near-total output of consumer durables and a token share of facilities producing soft goods (textiles, clothing, and shoes). [redacted]

25X1

25X1

25X1

25X1

25X1

Turning to the Private Sector

The Gorbachev regime also has turned to the private sector to play an increased role in the government's efforts to boost the availability and quality of consumer goods and services:

- *The Law on Self-Employment.* Approved by the Supreme Soviet in mid-November 1986, this law sanctions self-employment in a range of activities from handicrafts to medical services. Participation is limited to individuals working during their free time. Members of the immediate family may participate, but hiring of outside labor is strictly forbidden. The law also requires that individuals register with the state before setting up shop; those who fail to do so are subject to fines. Participants must either pay a licensing fee or taxes on their annual income. The marginal tax rates on income from private activity have been lowered on some levels of annual income.¹⁷
- *Cooperatives.* Decrees approved by the USSR Council of Ministers in February and September 1987 permit groups of three or more persons to form profit-sharing cooperatives to engage in various types of business: consumer services (such as beauty parlors, tailoring, and auto repair), food and bakery service, and production of consumer goods. Cooperatives have the right to plan production, set prices, and determine members' wages and work rules independently. Membership in cooperatives is limited to students, housewives, and pensioners, but cooperatives may hire part-time workers. Cooperatives pay an income tax to the local government and retain the remaining profits for production development, social insurance funds, and wages. The personal income of members of the cooperative is subject to the same set of tax rates as that of state employees, with a top marginal rate of 13 percent.

¹⁷ Income above 3,000 rubles per year from handicrafts and everyday services—and above 300 rubles per year from medical, dental, teaching, and other professional services—are taxed at reduced marginal rates. [redacted]

- *Unearned incomes.* As a means of bringing illegal private activity above ground, the regime in 1986 initiated a crackdown on "unearned incomes." Measures that took effect on 1 July 1986 take aim at corruption, theft, and tax evasion frequently associated with underground private businesses. They set penalties for failure to register private business and to pay taxes. New inventory control procedures were also introduced at state enterprises to curtail theft of materials and tools by workers moonlighting in the private sector. The measures also call for closer monitoring of individual income by the state. For example, citizens conducting transactions valued at more than 10,000 rubles must now submit to state authorities declarations indicating their source of income.
- *Private construction workers.* A resolution issued in May 1986 by the Council of Ministers gave explicit legal sanction to *shabashniki*—itinerant brigades of workers who hire themselves out to perform construction or fieldwork. *Shabashniki* must have written permission from their state employer to engage in private work, and contracts for all work must be drawn up and approved by local authorities. The enterprise or persons hiring *shabashniki* are charged with supplying all necessary materials so that the *shabashniki* will not have to resort to theft of supplies from the state. The regulations limit payment to rates paid for comparable work in the state sector. [redacted]

25X1

Building on the Food Program

Gorbachev has extended the Brezhnev Food Program to improve the quality and variety of the diet and to reduce food imports and the enormous resource burden of the inefficient agricultural sector. His agricultural program calls for:

- *Reallocating investment.* Investment for food production is to be shifted away from farms and into development of rural infrastructure, food processing, and the machine-building and chemical industries that support agriculture.

25X1

Confidential

- *Restructuring of the management of the agroindustrial sector.* In order to eliminate interdepartmental conflicts and better synchronize the process of moving food products from farms to retail outlets, five ministries and one state committee were merged into a state agroindustrial committee that is intended to have broad authority to plan and finance activities of all branches concerned with production and processing of food and natural fiber.
- *Implementing stronger economic incentives.* The March 1986 decree on agroindustrial management gives local authorities and farms more control over disposal of above-plan production and allows the sale of more produce at market-influenced prices. It also provides for the transfer of all production subunits on farms and in other agroindustrial enterprises to the collective contract system of labor payments that makes financial rewards for workers somewhat more dependent on results.

Gorbachev is also calling on the populace, local authorities, and the ministries to take more responsibility for food supplies. The Council of Ministers in June 1986, for example, issued a resolution calling for an annual increase of 1-1.2 million garden plots in urban areas. This decree and follow-up decrees on collective gardens issued by the Central Committee in August and October 1987 encourage local party organs, enterprises, and organizations to form collective gardening societies composed of employees, their families, and local pensioners. Members keep the results of their efforts, and any extra produce can be sold to the consumer cooperative network. Also, the 12th Five-Year Plan calls for an expansion of the system of ministerial "industrial subsidiary farms"—factory-run, usually small-scale crop and livestock operations that provide food to factory kitchens.

Highlighting the Housing Problem

As Khrushchev initiated a dramatic attack on the highly visible and oft-lamented housing problem, the Gorbachev leadership has also elevated the position of housing in its consumer strategy. During the Khrushchev era, construction of housing almost doubled, from 240.5 million m² in 1951-55 to 474.1 million m² in 1961-65, and reached an annual high of 115.2 million m² in 1959, a level not matched again until 1986. While calling on state enterprises to build more housing, Moscow is also encouraging individual citizens to contribute their own resources to the housing push. An April 1988 decree calls for increased construction of cooperative housing built and financed by associations composed of Soviet citizens who pay substantial sums of money for the privilege of occupying an apartment owned by the cooperative.

25X1

25X1

25X1

Confidential

Appendix C

Key Consumer-Oriented Decisions Issued by the Gorbachev Leadership

1985

February

Politburo meeting discusses measures to increase production of quality footwear.

Central Committee-Council of Ministers resolution on telephone and communication services.

April

Central Committee-Council of Ministers resolution on local industry.

Central Committee-Council of Ministers resolution on collective garden plots.

September

Council of Ministers resolution requiring all enterprises to provide services.

October

Comprehensive Program for the Development of Consumer Goods and Services.

1986

January

Central Committee resolution on RSFSR July 1985 experiment in management of consumer service enterprises.

February

Central Committee-Council of Ministers resolution on consumer cooperative system.

March

Council of Ministers resolution on agroindustrial management.

April

Council of Ministers resolution on housing.

May

Central Committee-Council of Ministers decree on management in light industry.

Central Committee-Council of Ministers decrees on unearned incomes.

June

Council of Ministers resolution on collective gardening.

Council of Ministers resolution on factory outlet stores.

August Central Committee–Council of Ministers resolution on management in state retail trade and consumer cooperatives.

Central Committee–Council of Ministers resolution on improving food supplies in Moscow and Leningrad.

November Supreme Soviet law on individual labor activity.

December Council of Ministers resolution on repair of household appliances.

1987

February Decrees on formation of consumer cooperatives for consumer services, goods, and public catering.

April Central Committee–Council of Ministers decree on “improving the work of kolkhoz markets.”

Central Committee–Council of Ministers decree on housing utilities and repair services.

May Central Committee–Council of Ministers resolution on construction of sociocultural facilities.

Central Committee conference on consumer goods and services.

July Central Committee report on work to fulfill August 1986 decree on improving food supplies in Moscow and Leningrad.

Central Committee resolution on need to increase sales of construction materials and building supplies to the population.

August Central Committee resolution on collective gardens.

Central Committee–Council of Ministers draft program on development of the health care system.

Council of Ministers decree on health care in 1988-90.

September Council of Ministers resolution on bakery cooperatives.

Central Committee–Council of Ministers resolution on private plots and collective gardens.

October Central Committee–Council of Ministers resolution on subsidiary farms.
Council of Ministers resolution on sales of goods produced by cooperatives through the state retail trade network and by cooperatives.
Central Committee conference on food processing.

November Central Committee resolution calling on local authorities to support cooperatives.
Central Committee–Council of Ministers resolution on development of the health care system.

1988
March Draft law on cooperatives.

April Central Committee–Council of Ministers resolution on retooling of light industry.
Central Committee–Council of Ministers resolution on housing cooperatives.



25X1

~~Confidential~~

Confidential