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# USSR: Policy Toward the Consumer

An Intelligence Assessment

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# USSR: Policy Toward the Consumer

An Intelligence Assessment

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## USSR: Policy Toward the Consumer

### Key Judgments

*Information available  
as of 30 November 1983  
was used in this report.*

The Andropov regime is taking a cautious approach on consumer issues. Without impinging on defense or industrial investment, it has little room for maneuver until the Food Program's 1990 agenda for upgrading and integrating sectors involved in food production, processing, and marketing pays some return and more resources can be spared for the production of soft goods and consumer durables. Moreover, it does not view rapid improvements in consumption as an urgent necessity.

Andropov seems willing to settle for slow growth in consumption, in part because he believes workers can be motivated by other means. Andropov has been careful not to raise consumer expectations. Instead, he has downplayed the material aspects of consumption while at the same time stressing that increases in income must be closely linked to increases in labor productivity.

When Andropov became General Secretary, he found a consumer scene marked by persistent shortages and formal and informal rationing. Soviet planners thus far have stressed the macroeconomic aspect of the problem: stemming consumer demand by holding down the growth of money incomes. Several economic indicators, however, show that imbalance in the form of excess purchasing power is not as significant a problem as generally believed. The growth of incomes has slowed steadily as planners reduced the growth of wages and transfer payments in response to slowing growth in availability of consumer goods. But Moscow has been unable to produce the right assortment of goods and services. Attempts to reduce the disequilibrium have been hindered by the regime's failure (a) to adjust relative prices, resulting in a pervasive seller's market in which prices for goods generally do not reflect scarcity or cost and (b) to provide effective incentives for the producing enterprise to respond to consumer desires, to innovate, and to exercise stronger quality control.

Most notably, since the late 1970s the USSR has not been able to increase the availability of quality foods, although some forward momentum is developing this year. Demand has also continued to run far ahead of supply in two other major categories of consumption—housing and personal services. Even in the absence of substantial increases in supply, better balance between quantities demanded and supplied in all of these markets could be achieved if prices were higher. But, aware of the role of price increases in kindling worker unrest in Poland and committed to the tradition of low prices for basic necessities, Moscow is reluctant to raise official

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prices for essential goods and services. Although a dramatic rise in demand for some of these goods and services could force Moscow to raise prices, a broad revision of relative prices that would ameliorate most of the existence of demand/supply imbalances is unlikely

The pervasive disequilibrium in markets for individual consumer goods and services can also be attributed to the planning system's inability to provide the mix of goods that would satisfy consumer demand at existing prices and to the failure of quality controls at all stages. Enterprises generally lack a strong interest in the marketing side of their operations, despite numerous government efforts to change this attitude. The resulting side-by-side existence of shortages and surpluses of various goods means that consumers frequently have to purchase goods other than those most desired

The policy implications of this situation are not encouraging from the leadership's perspective. Containing incomes and raising prices selectively will help to prevent the growth of excessive purchasing power, but these policies do little to provide incentives for workers. To reinforce incentives would require major restructuring of relative retail prices and substantial increases in the supply of quality foods, housing, and personal services—generally bringing the product mix into greater conformity with demand. It would also require greater attention to relative wages to bring individual incomes more into line with workers' contributions to production. As past Soviet experience shows, it is far more difficult to carry out these initiatives than to control the growth of household incomes.

The Andropov administration is attempting to extricate itself from the quandary in which Brezhnev found himself in his last years: having relied increasingly upon material incentives instead of discipline, Brezhnev had neither strong positive nor strong negative worker incentives at his disposal in a period of much slower growth of real consumption. Recognizing that the economy would be hard pressed to provide enough material rewards to elicit better work performance in the near future, Andropov has taken a number of more direct steps. These measures—especially, the discipline campaign—probably contributed to the economy's rebound this year. The impact of the focus on discipline is unlikely to endure, however, unless some way of firmly and consistently tying worker remuneration to worker performance is devised that does not depend upon continual political pressure from the top

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Establishing this link between pay and performance would require a reversal of the pronounced trend toward wage leveling that occurred under Brezhnev--an unlikely prospect in a period of serious labor shortages and when overall wage increases are being held to historic lows by postwar standards. Finally, even if the wage system is eventually structured so that payment corresponds more closely to contribution to production, workers will not be able to translate higher incomes into improved living standards if the desired consumer goods are not available.

The Andropov regime, while trying to dampen consumer expectations, nonetheless acts as if it believes that at least limited improvements in the consumer's lot are necessary to stave off more serious discontent and to provide incentives for labor. We judge that Moscow will be highly reluctant to allow consumption levels to decline from their present level and will continue to do what it can, given various constraints, to increase consumption. We believe that the Soviets will continue to import substantial quantities of consumer goods, in part by pressuring their CEMA partners for more deliveries of these goods. In addition, indications have appeared that the leadership may allocate some additional resources to the food and light industries beyond those already planned in 1984 and 1985. The 1984 economic plan and the discussions surrounding the compilation of the 1986-90 Plan will provide more clear-cut evidence regarding Andropov's intentions in the consumer arena.

The trends in consumer goods production, along with Andropov's approach to dealing with imbalances, mean that consumption growth is likely to be slow at best over the next several years. The reactions of the populace to continuing consumption problems are likely to be manifested primarily in greater apathy toward the social and political values of the system, which could be reflected in performance at the workplace. In the current era of resource stringencies, this would do more damage to the economy and be more difficult for the regime to counter than an increase in sporadic civil unrest.

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## USSR: Policy Toward the Consumer

### Introduction

Among the most difficult challenges facing Yuriy Andropov when he became General Secretary of the Communist Party of the USSR was that of improving worker performance just as the increase in real consumption of the population had virtually come to a halt.

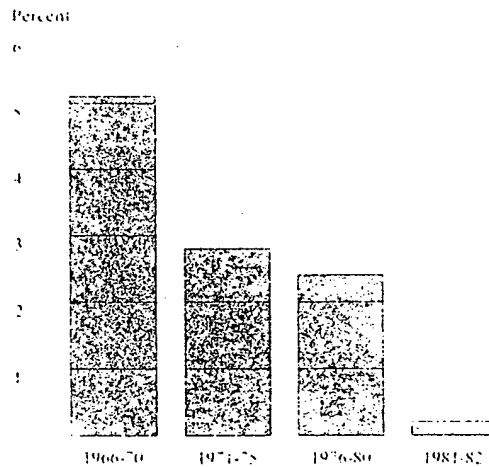
Although the standard of living improved substantially during the Brezhnev era, it remained low in comparison with those of the developed Western nations and some East European countries. Furthermore, the Soviet economy is doing a poor job of satisfying consumer expectations. Growing consumer dissatisfaction stems in part from the marked slowdown in the growth of consumption that is part of the general decline in Soviet economic growth (figure 1). But it also reflects serious imbalances between supply and demand in certain markets, evident in long lines at state stores, frequent resort to informal rationing, and open acknowledgment by Soviet officials and media that the consumer sector is in disarray.

This paper will first examine the evolution of leadership attitudes toward the consumer sector, with special attention to the current regime's assessment of the scope and implications of consumer sector problems. We will then present our own assessment of the origins of consumer sector difficulties. Finally, the paper will conclude with a discussion of the outlook for consumption under Andropov.

### Leadership Attitudes Toward the Consumer

Leadership views on consumer welfare were transformed after the Stalin era, which gave popular sea welfare a low priority and which mobilized vast amounts of unpaid and involuntary labor in the drive for industrialization. The change that has occurred in perception of the importance of the consumer sector, however, has been accompanied by differing emphases and nuances in each regime, and the Andropov regime is developing its own assessment of why and to what extent consumer satisfaction matters.

Figure 1  
USSR: Average Annual Percentage Growth of  
Real Per Capita Consumption, 1966-82



*Khrushchev and Brezhnev.* Khrushchev realized that a well-developed consumption sector is a basic feature of industrialized societies, and that the Soviet Union, as a model for developing countries of the socialist alternative to capitalism, could not postpone attention to consumer goods and services indefinitely. The belief that rapid growth in consumption would validate the Socialist system and confer international prestige dominated the party program adopted in 1961, which forecast that the Soviet Union would surpass the United States in industrial production by 1970, provide the Soviet people with the highest standard of living in the world by 1980, and complete

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the transition to Communism that same year. Consumer policy during the Khrushchev years was aimed at expanding social benefits; the provision of highly subsidized housing, public transportation, health care, social security payments, and education grew rapidly.

Khrushchev's proconsumer stance was motivated by domestic considerations as well as by the desire to project an image of success abroad. Converting the forced labor system to one of normal industrial and scientific employment made it necessary to build housing, pay realistic wages, and ensure a more adequate supply of foodstuffs, clothing, and recreational facilities. In addition, according to Ray and Zhores Medvedev, the Soviet leader's intense interest in agriculture arose from his realization that an urban food supply crisis of historic magnitude was impending as a result of rapid postwar urban growth and the long-term severe neglect of the farm sector. Substantial support for agriculture has been a basic feature of Soviet domestic policy ever since Khrushchev's recognition that improving farm performance was essential not only to maintain social peace but also to boost the standard of living to levels commensurate with Western industrialized countries.

During the Brezhnev regime, the role of consumption growth came to be viewed in more pragmatically domestic terms: rapid and steady growth of consumption would not only foster popular commitment to the system but would also spur productivity growth through greater worker effort. In the early 1970s the regime began to stress the tie between the "well-being of the worker" and "rapid production growth." Brezhnev emphasized the need to increase the output of consumer goods and substantially increased the share of investment devoted to agriculture. Rapid increases in incomes were planned to provide the population with the disposable income with which to buy more of the goods—especially meat and automobiles—the consumer craved. In the waning years of the Brezhnev era, as growth in both labor productivity and consumption steadily declined, the leadership persistently stressed the link between consumer welfare and productivity. The word "mood" became more common in the leadership's vocabulary as concern mounted over a possible escalation of consumer dissatisfaction into unrest caused by unmet expectations.

Although it gave considerable weight to the effort to motivate workers by providing a better life, the Brezhnev regime also believed that planning and management was a major determinant of labor productivity. Beginning in 1965 the regime launched a series of reforms designed to improve both labor and capital productivity. By 1979 the regime was expressing extreme frustration with the operation of the planning and management system. Indeed, as the economy failed to respond as expected to the numerous adjustments and "reforms," Brezhnev came to see that promoting unrealistic consumer expectations might be just as dangerous to social order and productivity growth as would be the failure to provide sizable improvements in consumption levels.

Accordingly, the leadership began in late 1979 to seek ways of restricting consumer demand. For example, in a 1979 issue of *Kommunist*, then Gosbank Chairman Alkhimov recommended several ways of increasing the output of consumer goods but devoted the major portion of the article to methods of dampening demand. These included the limitation of "unjustified" increases in wages—that is, increases not tied to labor productivity—and strengthened control by central administrative organs and banks over wage payments. The reform measures adopted in 1979 emphasized the necessity of tying wages more closely to individual productivity. Although little was done to implement the measures, they represented a policy shift from the egalitarian wage policy of the past. Price increases on a range of selected nonfood items occurred in 1979 and 1981 as the regime sought to reduce demand pressures by limiting the growth of purchasing power. The 11th (1981-85) Five-Year Plan directives set out the lowest rates of wage growth of the Brezhnev era. By the end of its tenure, the regime, perhaps as part of its efforts to temper expectations, became more disposed to admit publicly its concerns over consumer problems. However, it also pinned some of the blame upon poor worker performance. "Whoever wants to live better must work more and better," Brezhnev warned the population at the 26th Party Congress in early 1981.

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The Polish crisis—coming the year after a particularly disappointing performance in agriculture and a sharp worsening in the supply-demand gap for quality foods—worried the leadership, especially some regional party leaders who had to contend with social tensions generated by ethnic and cultural factors in addition to consumer dissatisfaction. But whatever the extent of the leadership's fear that the Polish example would trigger a similar response in the USSR, it clearly was not sufficient to cause a shift in resources toward the consumer. The Soviet Union was in the midst of a downward drift in economic growth that tended to force greater attention to investment in priority sectors like energy, transportation, and heavy industry generally.

Neither the plan for 1981 nor the 11th Five-Year Plan, both released in the fall of 1980, contained measures designed to bring about a rapid and sustained improvement in welfare. Over the next year, a package of coping strategies emerged from the leadership's ongoing assessment of the Polish situation. The prescription was: continued but not rapid consumption growth (which might have led to serious conflict over resource allocations); a focus on the worst problem, the diet—hence the promise for a "Food Program"; greater attention to the priority allocation of the most desired goods to workers in large industrial installations; and an escalation of rhetoric about the role of trade unions in protecting worker interests.

*Andropov's Outlook.* Andropov's statements show considerable continuity with the Brezhnev regime's assessment of the role of consumption, but Andropov may well believe that his predecessor during most of his tenure had overemphasized the link between consumption and productivity. While aware that the level of consumption affects labor incentives, Andropov believes that worker morale is also determined by several other factors. One of the most significant is the individual's commitment to the Soviet system and its goals. Like Brezhnev, Andropov wishes to raise consumer satisfaction but knows that only a slow advance in consumption growth can be sustained under present circumstances. Other methods therefore must be found to motivate workers.

With the Polish situation under better control, Andropov probably feels in a better position to move ahead along the path which Brezhnev had taken only shortly

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#### *Countering Trouble in Estonia*

*A recent article in the authoritative party journal Kommunist by Estonian party first secretary Karl Vaino explicitly linked the influence of Solidarity with threatened strikes in the Baltic republic in the fall and winter of 1981. Estonian party officials, by their own account, took seriously the possibility of strikes or other spillover from Poland.*

*Nevertheless, Vaino's description of the Estonian leadership's response indicates that even in this republic, whose population is probably the most aware of all Soviet groups of differences between Western consumption levels and their own, the leaders did not focus upon consumption issues.*

*When leaflets were circulated calling for a one-hour general strike, the efforts to counteract the potential for unrest centered on ideological and propaganda efforts, according to Vaino's account. And this approach, Vaino says, echoing Andropov's own recent prescription for addressing the ills of Soviet society, is the remedy for the future. "Let us reemphasize that practical experience indicates that ideological work must be specific, substantial, militant, and aggressive. In exposing the antihuman nature of the capitalist system, we must steadily promote in people's minds the values of socialism and develop ideological firmness, class responsiveness, and the ability to critically react to bourgeois propaganda and to oppose it firmly," he says.*

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before the eruption in Poland. In his public addresses, Andropov has been more critical of flagging economic performance than was Brezhnev, and—far more strongly than Brezhnev—he has blamed this upon labor. In his speech at the November 1982 plenum, for example, Andropov sounded the theme of discipline (while echoing Brezhnev's pronouncement in 1981): "At present, it is particularly important and necessary that each worker understand that the implementation of the plan depends on his labor contribution and that everyone understand well the simple

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truth that the better we work the better we will live." In his speech to the workers of a Moscow factory in late January, he stated, "Although not everything can be traced back to discipline, it is necessary, comrades, to begin with it. . . . There are no miracles. You yourselves understand the State can only provide as many goods as are produced."

In his party plenum speech this June, Andropov took a carefully balanced approach to consumption issues. He devoted more attention to consumption—the food supply, housing, and provision of health services—than in any of his previous speeches, stating that "the ultimate objective of our economic efforts is to improve the living conditions of the people." But he downplayed the role of the materialistic aspects of consumption in the general quality of life, stressing instead the necessity of improving the moral climate of Soviet society:

*The slogan "Raising the Standard of Living" is used often in our country. But it is sometimes interpreted in a simplified way, meaning only the growth of the incomes of the population and the production of consumer goods. In fact, the concept of living standards is much wider and richer. It encompasses a steady growth in the consciousness and cultural life of the people, including their cultural standards in everyday life and conduct, and what I would call, reasonable consumption. Also encompassed in this concept is exemplary public order, health, a rational diet, a high quality of public service (with which, as is known, far from all is well in our country). It also encompasses a moral and aesthetic use of free time. In short, everything which is civilized in line with socialist principles.*

When discussing faster growth in labor productivity, which he called "the key task in the economic sphere," the solutions he cited included improving labor discipline, upgrading science and technology, and dealing with the disorders in the planning and management system.

In his speeches since taking power, Andropov has been careful not to promise more than the eventual

fulfillment of "reasonable" consumption levels.<sup>4</sup> His reluctance to raise consumer expectations probably partly underlies his call for a new party program to replace the party program of 1961, which expressed Khrushchev's dream of showering the country with consumer goods. Instead, Andropov has emphasized the role of discipline in promoting work effort. Although initially the concept of worker discipline was applied to blue-collar workers and directed largely at absenteeism, drinking on the job, and high turnover, Andropov has extended it to society at large, and the concept of discipline now implies social order and popular commitment to the system. It is the antithesis of what a recent *Pravda* editorial condemned:

*Unfortunately, people who live in their own little world of exclusive petty concerns, pushing community interests into the background, are still very much with us. This can be seen in manifestations of a private-ownership, nationalistic mentality; local self-interest; parasitism; money grubbing; acquisitiveness; drunkenness; and so on. An indifferent, narrowminded attitude toward life is incompatible with the makeup of a conscientious Soviet citizen.*

Although Brezhnev spoke frequently of the need to tie wage growth more closely to individual output, efforts in this direction were halfhearted and hampered by various systemic constraints. To offset purchasing-power growth, the regime pursued a policy of selective

<sup>4</sup>The concept "rational norms of consumption" has long been an aspect of Soviet planning. It refers to "recommended" standards of consumption of certain goods in physical units. For example, the "need" for bread was set at 120.4 kilograms per capita in 1970, and the need for men's coats in the wardrobe was set at 2.6 in 1961. There is little evidence that the consumption norms have played an active part in short- or medium-range planning; they have often been calculated on the basis of production potential rather than consumer demand, and are thus generally an outcome of the planning process rather than an input. Thus, they have often been used to brake consumer expectations. Upon occasion when the norms have proved to be beyond the capacity of the economy, they have been revised downward. For example, lower norms for meat and milk consumption appeared last fall.

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price increases and continually increased the level of consumer goods imports. The Andropov regime has harshly attacked wage leveling and is making a stronger effort to link remuneration to the contribution of each worker. The most recent step in this direction was a decree in August calling for tougher measures against absentees, drunks, and other offenders. It provides for loss of pay and vacation privileges, demotion, or even dismissal for those guilty of such offenses while offering positive incentives for good workers. Managers are liable for disciplinary proceedings for failing to ensure labor discipline. These measures, while tougher than any taken under Brezhnev, are not likely to take hold over the long term because of the tight Soviet labor market.<sup>2</sup> Nor do they systematically link pay to output. The latter problem was noted in a recent Politburo meeting: a *Pravda* summary of the meeting's conclusions stated that "an economically based correlation between labor productivity and wages has not been fully ensured."

Andropov has indicated that he will continue to push for more wage differentiation. A thoroughgoing and time-consuming revision of wage norms to reward higher skill levels would be necessary to carry out Andropov's intention of paying better workers more, but even this would not be sufficient. Labor productivity growth is hampered by several problems outside the individual worker's control, such as late deliveries of supplies, equipment breakdowns, and faulty technical specifications. As it is, workers receive only half their wages when they are standing idle through no fault of their own, a situation which contributes to poor morale and falsification of output statistics by managers unwilling to antagonize their workers.

#### Leadership Assessments of Specific Consumption Problems

Considerable continuity also exists between the Brezhnev and Andropov regimes in their assessment of which problems are the most significant, even though some shifts in emphasis have occurred

**Purchasing Power, Quality, and Product Mix.** Andropov has said more than once that the consumer economy is plagued by excessive purchasing power. He appears convinced that, because of the unexpected falloff in industrial and agricultural growth, the overall level of spending power is too high in relation to the availability of goods and services. Brezhnev apparently believed that, if this problem was not acute, it was on the threshold of becoming so. Targets for wage growth were consistently and steadily reduced during his regime in response to the slowing growth in output of consumer goods and services.

Both regimes have identified the lack of quality control in consumer products as a significant cause of consumer dissatisfaction. The Brezhnev regime instituted a set of measures to upgrade standards in response to the recognition that, although some markets were supplied with enough goods, such as shoes, consumers were not buying them because of poor quality, causing runups in inventories. Both leaders recognized that little progress has been made. Andropov, for example, remarked at the June plenum:

*It is not enough to improve the system of monetary remuneration for work; we must also produce the necessary amounts of goods that are in demand. The highest standards of quality should be set, with no exceptions. But the situation today is sometimes downright vexing: the initial materials are good, but the final product is such that people prefer to overpay speculators for well-made, tasteful articles. This situation must be corrected, and corrected without delay.*

If Andropov is vexed by quality problems, he is displaying an even higher level of frustration and irritation over the mix of consumer products. Brezhnev too complained rancorously on one occasion about deficiencies in product assortment. At the fall 1979 Central Committee plenum, he singled out certain

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ministers by name in an effort (largely fruitless) to reduce shortages:

*Of late, the CPSU Central Committee and the newspapers have received letters and complaints on interruption in the supply of goods, which for some reason are described as "petty"—the simplest types of medicines, soap, detergents, toothbrushes, toothpaste, needles, thread, diapers, and other light-industry goods. This, comrades, is unforgivable. The blame falls on the ministries producing such goods, the Ministry of Light Industry, Minister Comrade N. N. Tarasov. Another culprit is the Ministry of Trade, Minister Comrade A. I. Struyev. The trade network has the direct obligation to influence far more energetically the production process and demand from industry commodities truly needed by the consumer, and then to better manage their distribution. The situation must be corrected as early as 1980. The specific culprits for each "shortage" must be found if caused by negligence, irresponsibility, or bungling. They must be punished [shouts: "Correct!" applause].*

**What Andropov Has Done.** Since early this year, several decrees relating to consumer goods and services have appeared; their general tone indicates high-level frustration and irritation that the variety, quality, and general availability of consumer goods and services are not improving because many enterprises, through selective juggling of success indicators, manage to evade their output targets for consumer goods.<sup>3</sup> This is possible because the production of most durables and household goods is the responsibility of heavy-industry enterprises and, being manufactured across a broad range of factories, is a sideline for most of these enterprises. Thus, factory managers generally fail to meet their consumer goods goals, concentrating efforts on their main products to meet their primary plan targets.

A decree issued in May sharply criticized ministries and local party organizations for failing to ensure that enterprises within their purview meet consumer goods plans and stated that the Central Committee and the Council of Ministers had "warned" and "demanded"

that they "completely fulfill" their plans for consumer goods. The decree is aimed at increasing pressure on ministries and local party organizations and Soviets to oversee the work of local factories and service organizations, a tactic taken in the past but not generally as vehemently. This decree follows the introduction several months ago of a new success indicator that tasks heavy-industry enterprises to produce a specified amount of consumer goods output per ruble of the enterprise's wage fund. But because enterprises are still obliged to meet their primary output targets, the decree is not likely to provide a significant stimulus to the production of consumer goods output—hence the pressure tactics employed in the May decree.

Andropov has demonstrated his uneasiness over the shortages of quality foods by retaining the priority accorded to the Brezhnev Food Program, launched in May 1982 to improve the production, processing, and marketing of food products. Judging by Soviet press reporting on Politburo meetings, the leadership under Andropov has devoted more time to agriculture than any other domestic issue and has taken several steps to help the implementation of the Food Program.<sup>4</sup> However, the Andropov commitment to the Food Program apparently does not include a rapid expansion in quality foods availability such as Brezhnev envisioned when he announced the Program. The decision of the Andropov regime not to accelerate grain imports (to feed herds) in the 1982/83 marketing year<sup>5</sup>—despite an improved financial situation, lower world market grain prices, and low animal weights—may reflect Andropov's cautious approach to raising consumer expectations as well as some improvements in domestic feed and forage production. Andropov likely is reluctant to press for stepped-up

<sup>3</sup> But Andropov, through his powerful party secretary for agriculture, Mikhail Gorbachev, is shaping the implementation of the Food Program in a manner that reflects his own preoccupation with the problem of better tying individual wages to output. They have actively promoted the collective contract system—an aspect of the Food Program that received relatively little attention before Brezhnev's death. In this system, which has been used experimentally at least since the 1960s, farm workers are rewarded according to the size of the harvest rather than receiving hourly or piecework rates.

<sup>4</sup> Total grain imports in the 1982/83 marketing year were 35 million metric tons, 11 million tons less than in the 1981/82 marketing year.

Published in *Pravda* on: 17 January, 26 February, 30 March, 16 April, and 7 May.

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**Table 1**  
USSR: Average Annual Growth  
of Total Personal Income and  
Expenditures

	Personal Disposable Money Income <sup>a</sup>	Consumer Outlays for Goods and Services <sup>b</sup>
1966-70	7.9	7.6
1971-75	6.2	6.1
1976-80	5.0	5.1
1981	3.9	5.4
1982	4.3	3.9 <sup>c</sup>

<sup>a</sup> Calculated from appendix C, table 3, column 3.  
<sup>b</sup> Calculated from Soviet reported retail trade less estimated sales to institutions and—to avoid double counting—some services, plus our estimates of household outlays on housing, utilities, communications, transport, repair and personal care, recreation and culture, health, and education. Information on privately earned income, with the exception of net incomes of households from farm products, is too sparse to permit estimates; therefore household outlays on consumption are adjusted to exclude expenditures for privately provided goods and services except for net incomes of households from farm products. Our estimates in ruble terms of disposable incomes less savings do not match estimates of consumer spending in ruble terms because of the absence of data on such incomes as prisoner's wages, various kinds of payments not included in the regular wage fund, receipts from sale of property and from private nonagricultural activities, and others.  
<sup>c</sup> Preliminary.

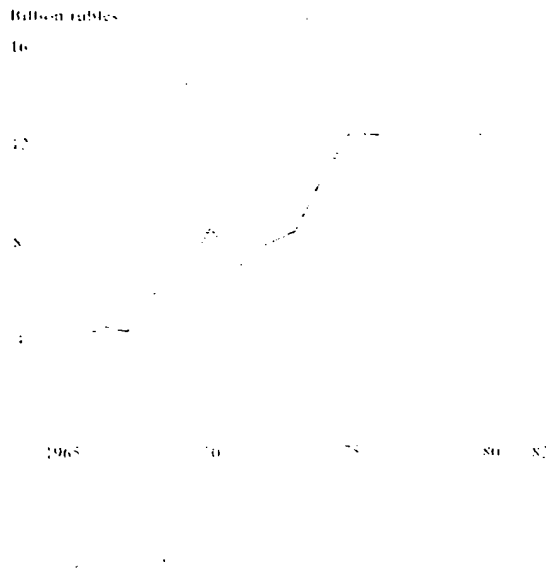
production of livestock products in 1983 and 1984 that cannot be guaranteed in subsequent years and probably prefers more gradual, but steady, progress.

**The Main Sources of Trouble in the Consumer Economy**

We believe that the imbalances in the Soviet consumer goods market to be less the consequence of excess purchasing power than the result of imbalances in supply and demand for specific categories of goods and services or items greatly desired by consumers:

- Estimates of personal money income and expenditures over the last decade and a half show generally the same rates of growth (table 1). In recent years, moreover, the rise in consumer expenditures—in part due to selective increases in retail prices—has outstripped the growth of money income.

**Figure 2**  
USSR: Net Additions to Savings, 1965-82



- The part of disposable income (what is left to spend after taxes and other largely obligatory deductions are netted out) that Soviet households have been saving has represented a decreasing share of annual increments in their incomes, and average savings rates are below those of most Western industrialized and some East European countries (figure 2 and appendix A).

- Comparisons of the USSR with selected Western and East European countries suggest that the ratio of net financial assets to consumption outlays in the USSR is not disproportionately high (appendix B).

Because of systemic shortcomings in the adjustment processes of the Soviet economy, particularly with respect to making the product mix and relative prices consistent with consumer demand, imbalances between supply and demand for individual products or

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groups of products may persist—even though in terms of *aggregate* income and *aggregate* availability of goods the problem does not appear to be primarily one of too many rubles chasing too few goods. Consumers, for example, are frustrated more by their inability to purchase quality foods, stylish clothing, and automobiles than by the overall mismatch between purchasing power and the supply of goods and services.

Soviet expenditure levels often mask the degree of consumer dissatisfaction as Soviet consumers frequently have to buy less desirable substitutes to satisfy a basic need or demand.\* More starchy staples are consumed because not enough livestock products are available; families that cannot obtain a separate apartment settle for communal housing; a shopper who cannot find cotton goods will instead purchase synthetic cloth. Finally, when consumers will not purchase low-quality products or services in state retail establishments or cannot find a close substitute for the item desired, private or illegal markets (at higher prices) serve as outlets for purchasing power. These alternative markets increase the net availability of consumer goods and services and thus provide an antidote to some of the imbalances in state markets.

The Soviet leadership must therefore contend with the negative impact on labor productivity of the frustrations engendered by imbalances in consumer markets. Suggestions that wages and bonuses have lost their incentive value overstate the case, but the chronic shortages of some highly desired goods and services, as well as serious problems in product mix and quality, have contributed to lackluster performance by Soviet workers. The typical Soviet citizen must still work to live, but harder work is not likely to lead to a proportionate gain in well-being when the desired better quality goods are not available.

\* Some categories of consumer goods and services are in short supply (demand is greater than the available supply at the existing price) because, in the eyes of Soviet consumers, there are no close substitutes. A test of substitutability is the willingness of the population to forgo consumption of a particular commodity when its price rises relative to that of another commodity. Small price increases for goods that have close substitutes can eliminate excess demand. But for goods having a unique attraction for consumers—passenger cars and housing, for example—Soviet planners would have to raise the prices substantially to eliminate the excess demand.

Reinforcing worker incentives requires major restructuring of relative retail prices and substantial increases in the supply of quality foods, housing, and personal services—generally bringing the product mix into greater conformity with demand. It would also require greater attention to relative wages to bring individual incomes more into line with workers' contributions to production. Accomplishing the former would prove extremely costly in terms of the adverse impact on defense and heavy industry; the latter objective would require a reversal of the pronounced trend toward wage leveling that occurred under Khrushchev and Brezhnev.

#### **The Three Main Trouble Spots in the Consumer Economy**

Shortages persist especially in three sectors of the consumer economy: quality foods, housing, and everyday services. The quality of the diet is the Soviet citizen's leading barometer of his standard of living: food accounts for the largest share of his family's budget, and shortages must be coped with on a daily basis. The housing shortage—which has resulted in the widespread practice of multiple households sharing one housing unit—produces the constant stress associated with overcrowding and lack of privacy. Meanwhile, the general unavailability of personal services compounds the frustrations of daily life, especially for the working woman.

*Quality Foods.* Soviet citizens receive enough calories, but the diet is inferior to that of developed Western nations and some East European countries in terms of nutritional quality and variety. The per capita availability of meat and meat products has remained at the 1975 level, that of milk and milk products has fallen by 7 percent since 1975, and per capita availability of fruit has increased by only 2 percent. As a result of stagnating output of these quality foods and the maintenance of state retail prices at levels that are low in relation to both production costs and rising money incomes, long queues and informal rationing have become widespread. In late summer 1981, the authorities invoked a mild form of rationing limiting the purchases of certain foods by state store customers.

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*The Second Economy—Inconspicuous  
Consumption on a Large Scale*

*Private economic activity, although severely restricted under Soviet law, is nevertheless widespread in the USSR. Private agriculture is the only "for profit" activity of any significance that is encouraged.*

*Most second economy activity probably has not increased at a faster pace than has the overall growth of real income. But in at least one part of the consumer economy—the market for meat and meat products—the growing gap between supply and demand appears to have caused a considerable upsurge in illegal trade. Clerks in state stores (with the connivance of store managers) set aside meat for themselves, friends, and others under special arrangements and sell the meat at prices two to four times the retail level. Although the Brezhnev regime probably realized that such practices were more the result than the cause of shortages, it worried about the resentment generated by the general unavailability of meat. A decree issued in the fall of 1981 provided stiffer penalties for store personnel and for the first time applied penalties to customers engaging in bribery.*

*The case of meat shows why black markets develop and flourish. Official retail prices for many goods are set too low in relation to supply and demand; as supplies fluctuate, illegal markets expand or contract in rapid reaction. Meat in state stores, of course, is owned by the state; theft of such goods offends few consciences. Theft of socialist property is extremely common, on the premise that what is "ours" is also "mine." Finally, salaries for retail personnel are low in relation to salaries in most sectors; the temptation to supplement them is strong.*

*Because it often cannot be completely concealed, illegal trade, production, and the provision of services generate a great deal of bribery of the relevant officialdom: auditors, inspectors, supply officials in the planning offices, managers and workers in the "first economy" (to shunt materials or to produce goods for underground enterprises); the economic police and the regular police; and authorities in the party and state bureaucracies (to ignore transgressions). Should the law descend upon illegal operations, a common reaction is to try to buy off the procuracy and the courts to avoid or lighten a sentence.*

*The various Soviet regimes have tolerated illegal private activity in varying degrees, probably realizing that to some extent it provides goods and services which the state cannot offer and that it serves as an outlet for energies and frustrations that otherwise might be channeled into more threatening political activity. The aspect of the illegal economy that appears to bother Andropov most is the resulting corruption of government and party officials that in turn fosters resentment among the populace towards the system. He is currently conducting a "house-cleaning" among party and government officials. But as long as serious shortages of many goods and services remain, the scope of private activity is not likely to lessen.*

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The excess demand of the population for quality foods is reflected in prices at collective farm markets (CFMs), where individuals sell the surplus from their private plots and where prices vary according to supply and demand. Prices paid in CFMs are on average more than double the state retail prices. Part of the price difference reflects the superior quality of the products sold in CFMs. But even assuming that

quality differences might account for as much as half of the price differential, supply-demand imbalances have put considerable upward pressure on free market prices.

### Assessing Excess Demand for Livestock Products

*Excess demand in some consumption categories can be estimated roughly. If the plans for output of livestock products had been met in 1980, Soviet citizens would have consumed about 65 kilograms (kg) of meat per year instead of 58 and about 338 kg of milk and milk products instead of 314. If the additional 7 kg of meat per capita and the additional 24 kg of milk per capita had been available for purchase through the state retail trade network, consumers would have spent an additional 3.7 billion rubles—about 1 percent of household outlays in 1980.<sup>a</sup> Another way of estimating excess purchasing power for livestock products is to calculate, again assuming an income elasticity of one,<sup>b</sup> what the additional expenditures for meat and milk products would have been in 1980 (because of the rise in incomes since 1975) if supplies had been available; this calculation yields a figure of 4 billion rubles, close to the alternative estimate*

*To absorb purchasing power, the regime could raise state retail prices on livestock products. For example, increasing average retail prices on these products by only 15 percent (assuming no change in volume sold) could have increased household outlays by 4 billion rubles. But, mindful of the role of food price increases in kindling worker unrest in Poland and of the unrest aroused in the Soviet Union after the last major food price hikes in 1962, Moscow appears willing to tolerate repressed inflation rather than risk the consequences of official price increases.*

<sup>a</sup> Based on average state retail prices for meat and milk. The cost of an equivalent physical amount of starchy staples is netted out from the total additional expenditures for meat and milk, assuming a rough equivalency in a calorie substitution.

<sup>b</sup> The evidence suggests an income elasticity of demand for livestock products of at least one. If elasticity were exactly one, consumers would increase spending on livestock products in exact proportion to increases in income. If it were greater than one, spending on livestock products would be rising at a faster rate than income.

Instead of raising prices openly, Moscow probably will continue to pass off marginally improved existing products as being new products deserving higher prices. An ideal vehicle for justifying price changes in food products is the addition of packaging. According

to the Food Program agenda, the prepackaging of basic foodstuffs is to increase substantially by 1990. Another avenue for raising prices is the substitution of higher for lower grade products, but—like simulated product improvement—its effects are difficult to measure. For example, the lowest priced category of bread appears to be often unavailable, although higher priced types are regularly stocked.<sup>c</sup> While nudging up food prices in a concealed and unofficial manner, Moscow has officially raised the price of alcoholic beverages and tobacco products several times in recent years and will likely do so again to soak up more rubles. These are considered “nonessential goods” by planners but not by the populace—price increases have not yet had much effect on alcohol and tobacco consumption.

The 1981-85 Plan implies that per capita consumption of livestock products in 1985 will be roughly at the level originally planned for 1980. While consumption gains are being deferred, incomes will continue to rise, further aggravating the disequilibrium in the quality-foods market. Without imports, the situation could be much worse. The direct importation of livestock products (meat and dairy products) together with the value of livestock products obtained from imported feedstuffs (principally grain and oilseeds) accounted for roughly one-fifth of the supply of livestock products in 1982. Imports of foodstuffs in general represented about 14 percent of retail food sales in 1981.

Because of a number of factors (notably a much better 1983 harvest of grain and forage crops), some forward momentum in the livestock program is building this year. But unless the government chooses to reduce consumer demand for livestock products through price increases, informal rationing of these products will probably continue. Andropov has endorsed the Brezhnev Food Program, which provides for increased subsidies rather than higher retail prices to meet rising farm production costs and to stimulate increases in farm output.

<sup>c</sup> The differences in retail prices between two similar products often do not reflect differences in their production costs. (U)

<sup>d</sup> Imports of foodstuffs given in trade rubles were revalued in domestic retail prices using conversion coefficients from a variety of Soviet sources.

**Housing.** Substantial unsatisfied demand for more and better quality housing exists throughout the country. Housing construction peaked in 1959, when 2.7 million dwellings were built. Since then, construction has gradually declined to about 2 million annually. The USSR has not attained its goal of matching housing units with households and is not likely to do so until at least the end of the decade.

Currently, about 20 percent of the urban population still lives either communally, with unrelated families and singles sharing housing, or in crowded factory dormitories. In rural areas, conditions are worse. Most urban housing comes equipped with electricity, indoor plumbing, hot water, gas, and central heating; but in rural areas the typical, privately owned one-story wooden home lacks indoor plumbing and central heating, although it now has electricity. According to published Soviet statistics for 1980, for example, only 38 percent of state-owned rural housing units in the Russian Republic were connected to central water supply systems, and 22 percent to sewer lines; 26 percent had central heating. In both urban and rural areas, the quality of new construction in general is shoddy; for example, only roughly 40 percent of housing turned over for occupation in the Russian Republic each year is rated "satisfactory" or better.

The number of housing units in relation to households is the best available measure of a housing surplus or deficit. Since such information is not published in the USSR, we employ a comparison of yearly marriages and the number of housing units built as an indicator of housing needs.\* New households formed through marriages each year are outpacing the number of housing units built (see table 2). During 1975-80, for example, the number of marriages exceeded the number of new units added to the housing stock by 4 million. Most newlyweds must live with their families, and the waiting period for a new apartment may be as long as a decade.

Growth in the housing stock has also run far behind growth in per capita income, thereby increasing the

\* This measure is not as accurate as that of housing units in relation to households, because the number of households lost by death, the number of new singles, and the number of dwelling units retired or destroyed are not counted.

**Table 2** *Thousand units*  
**USSR: Marriages and New Housing**

	Marriages	New Housing	Implied Deficit
1975	2,723	2,228	495
1976	2,594	2,113	481
1977	2,771	2,111	660
1978	2,796	2,080	716
1979	2,871	1,933	938
1980	2,735	2,050	685
1975-80	16,490	12,515	3,975

unsatisfied demand for housing. The state subsidizes housing rents to the tune of 7 billion rubles a year, equivalent to slightly more than 2 percent of household outlays on goods and services in 1980. If the authorities conclude that housing rents must be raised to cut demand, additional purchasing power could be absorbed, although the rates of increase would be steeper than in the case of livestock products. For example, to absorb 1 billion rubles, rents would have to increase by more than 25 percent. As with food products, the regime appears reluctant to raise basic rents, although a number of Soviet economists recently have advocated such a step. The regime may instead settle for raising rates associated with rents, such as charges for utilities and floorspace allotments beyond minimum norms.

At the party plenum this June, Andropov admitted that "the housing problem remains acute for many," and stated that the problem would be solved "in the near future"; nevertheless, he gave no indication that construction targets would be raised.

**Repair and Personal Care Services.** Repair and personal care services expanded in the late 1960s at an average annual rate of 8.4 percent; by 1981 growth had slowed to 4.7 percent. An important reason for the falloff in growth rates for consumer-oriented

services is the traditional reluctance of the government to allocate investment to them. A recent survey in several cities, for example, showed that ordinary housing maintenance was running one to two years behind scheduled norms. The problem of insufficient quantity of services is compounded by low quality. Because personal care and repair work has a low social status and is poorly paid, service is often rendered in a surly and careless manner. Finally, some evidence has appeared that state enterprises are preempting a growing share of these services, squeezing out the individual consumer. Complaints in the press about the nonavailability and poor quality of these services remain common. Growth in this labor-intensive area is likely to continue to slow as the full impact of the labor shortage is felt by the mid-1980s.

The following Soviet statistics suggest the scope of the problem:

- State facilities are sufficient to handle only 38 percent of cars in need of repair. Only about half of the demand for motorcycle spare parts is being met.
- In the RSFSR, there are at any given time 7,500 to 10,500 people, who, because of difficulties in obtaining spare parts, have waited for over a month for warranty repairs on their refrigerators. Because of various provisions in the rules for exchanging defective parts, manufacturers refuse to exchange substandard or out-of-order items for new ones.
- A survey in Leningrad found that only 13 percent of the households polled used state laundries; the reasons given for avoiding them were the poor quality of the washing, long waiting time for return of laundry, and long distances from home. Throughout the country, the number of commercial laundries per capita is only about 3.5 percent of the planning norm in cities, and even less in the countryside.
- Roughly half of the need for eyeglasses is being met.

Lifting restrictions on private enterprise in personal care and repair would increase the availability of

these services. Some prominent Soviet economists want to encourage small private shops and family businesses along the lines of East European experience. Anecdotal evidence from the open literature suggests that many individuals are already practicing trades or professions permitted under present Soviet laws governing private activity. Private activity might be encouraged by modifying the progressive taxes levied upon most types of privately earned income, providing working space for shops, and easing the ban on hiring labor. Permitting private hiring of labor would probably be the most ideologically unpalatable course—and indeed would most disrupt current employment patterns.

There is no indication, however, that Moscow is yet willing to go any further in promoting private activity than the decree of January 1981 encouraging private agriculture. Very likely this unwillingness is due partly to the longstanding fear that labor would be directed out of the socialized economy, a fear that mounting labor shortages have probably accentuated. Indeed, in an article last February in the party's ideological journal *Kommunist* Andropov seemed to rule out the expansion of any type of private ownership or enterprise. Instead, the new regime has issued several decrees requiring improvements in the delivery of state-provided services within the scope of present plans, including one which calls for the siting of various service facilities (such as hairdressers, repair shops, and laundries) at factories and other workplaces.

#### Origins of the Product-Mix and Product-Quality Problems

The reasons for the pronounced disequilibrium in markets for individual consumer goods and services can be traced to the slower growth in output and flaws in planning and managerial incentives. Distribution problems further widen the gap between supply and demand. Although—as noted earlier—Soviet planners could relieve much of the disequilibrium by a thoroughgoing readjustment of relative prices, such an approach is contrary to the Soviet social policy of stable retail prices for basic consumption items.

**Table 3**  
**USSR: Growth of Output in Consumer Goods Industries, 1966-82**

*Average annual  
percentage change*

	1966-70	1971-75	1976-80	1979	1980	1981	1982
Food processing	5.9	3.9	1.1	3.1	0.7	1.9	2.8
Fish	6.8	7.8	2.3	6.2	-1.2	2.4	6.0
Meat	6.7	7.3	-0.8	0.5	-4.0	2.0	-0.9
Dairy products	9.8	3.9	1.2	0.4	1.0	0.1	3.0
Sugar	-1.5	0.4	-0.5	-12.5	-4.8	-6.0	NA
Flour	3.4	0.4	2.0	4.0	1.9	0.6	NA
Bread	1.2	1.8	1.5	0.5	2.4	0.8	NA
Confectioneries	4.6	2.3	3.5	1.9	2.4	2.3	NA
Vegetable oil	-0.1	3.6	-4.3	-5.7	-6.5	-2.6	0.7
Fruits and vegetables	7.9	6.6	-0.7	8.6	-6.0	5.5	NA
Beverages and tobacco	8.5	2.7	1.8	10.1	6.0	4.9	NA
Light industry	7.2	2.7	2.6	1.8	2.3	1.9	-0.1
Textiles	4.8	2.8	1.7	0.0	0.8	1.3	1.0
Sewn goods	12.2	3.5	4.5	4.2	4.5	3.4	-0.5
Leather, fur, and footwear	5.3	0.6	0.7	-0.6	0.4	-0.7	-0.7

Source: Ray Converse, *An Index of Industrial Production in the USSR*, and Margaret Hughes and Barbara S. Severin, *An Index of Agricultural Production in the USSR*, US Congress, Joint Economic Committee, Washington, US Government Printing Office, 1982. Growth rates for 1980-82 were estimated using the same methodology used in these studies to obtain growth rates for the period 1950-79.

**Slower Growth of Output.** Growth of output in consumer goods industries has been declining (table 3). The deceleration in light industry was especially abrupt in the early 1970s, and that of the food industry, in the late 1970s. The output of canned foods, for example, has increased by less than 3 percent since 1979; that of cotton fabric by 2 percent. Problems in deliveries of raw materials because of fluctuations in agricultural output have caused some of the difficulties; another major factor has been the low investment priority accorded to these industries. Capital investment in the food industry grew at less than half and in light industry at about two-thirds the rate of investment growth in industry as a whole in 1971-80. Machinery in the textile and food processing branches has the lowest retirement rates in industry, and therefore, these branches probably have the greatest shares of obsolete equipment.

About half of the machinery in the textile industry, for example, is more than 20 years old.

**Product Mix.** Soviet writers are becoming increasingly alarmed over the inability of the production system to produce the correct mix of goods that would satisfy consumer demand at prices close to present levels and over the failure of quality controls at all stages. According to one Soviet economist, "A significant portion of the population consumes much of its time searching for scarce goods."

Some typical product-mix problems have been noted recently in the Soviet press. According to Soviet figures, about three-fourths of the consumers who

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wish to purchase refrigerators want models with a capacity of 200 to 240 liters, yet only 12 percent of the units produced are of this size. About 150 percent more small-capacity refrigerators than needed are being manufactured. Meanwhile, the demand for desired types of furniture is being met at a level of 85 percent, according to Soviet figures, while inventories of unsold furniture have increased. Furniture sets of modern design are in high demand. Only 60 percent of the demand for furniture sets is being met; the sale of furniture for the kitchen, such as dinette sets, meets less than 70 percent of the estimated demand. At the same time, more sleeper sofas and old-fashioned metal furniture than can be sold are still produced. Of the 4 million washing machines produced every year, only 5 percent are fully automatic—little help to harried working women with families; most washing machines require the operator to wring the clothes manually at least once during the washing cycle.

The scattering of production across various ministerial jurisdictions reduces planning control over product mix and quality. According to Soviet press reports, for example, 40 percent of furniture production comes from enterprises of the Ministry of Timber Industry; the other 60 percent is manufactured by enterprises of the Ministry of Local Industry, the Ministry of Consumer Services to the Public, and other ministries. Washing machines are manufactured by 24 enterprises belonging to six All-Union ministries.

*Planning According to Consumer Demand.* In recent years, Soviet planners have stepped up their efforts to ascertain the structure of consumer demand. The All-Union Scientific Research Institute of Consumer Demand and Market Conditions (a successor to a body set up in 1971) was established during the 1976-80 Five-Year Plan and appears to be actively pursuing its mandate.<sup>10</sup> Nevertheless, as USSR First Deputy Minister of Trade P. Kondrashev points out, the study of

<sup>10</sup> In addition, some 500 factory outlet stores have been set up in the USSR to study demand for goods and publicize new products, as well as to sell the factories' goods and to ease the divorce between producer and consumer. These stores initially were not supposed to have plan targets; sales were to reflect only consumer demand. However, because these stores are often assigned sales targets, sales personnel attempt to order higher priced items that will boost sales, thus distorting data on consumer demand. In general, Soviet estimates of demand are made upon past sales records (which reflect unsatisfied demand) but appear to be increasing; based upon consumer surveys of plans for purchases at current prices.

consumer demand is far from satisfactory: "The situation is worst precisely where information on demand is needed most of all—in the oblast wholesale units and at retail enterprises where the main work with requisitions and orders is done." According to Kondrashev, even when adequate information on consumer demand in a region is available, trade organizations sometimes do not base their orders on it.

Even in instances in which demand is predicted correctly, the trade network often is not able to obtain the needed goods. Orders from the trade network for many goods are only fulfilled at a level of 60 to 80 percent by industry; meanwhile, other goods are delivered in excess quantities, including goods not ordered, according to trade officials. Although output of goods for the light and food industries is supposed to be established in accordance with orders from the trade sector, this is generally not the case in practice. For example, Soviet data reveal that the production of toothbrushes in 1980 was set at 30 million less than estimated demand; production, moreover, fell short of plan by 9 million.

Supply-demand distortions run the gamut from big-ticket to seemingly trivial items; the lack of the latter probably contributes most to the shopping rat race. In 1981, for example, a Soviet correspondent for *Literaturnaya Gazeta* journeyed from Moscow to Krasnodar, the capital of a region that embraces a resort area on the Black Sea. He deliberately left behind all the usual personal items (soap, razor, cologne, toothbrush, shaving cream, and so forth) to investigate reports that such items were unavailable in Krasnodar stores. The correspondent systematically visited every store in the city but managed to find only the last package of razor blades in one store and a child's toothbrush at another (the toothbrush broke the following day). The correspondent later, however, reported finding most of the items he desired on the black market.

*Enterprise Incentives the Fundamental Problem.* Just as local party officials often blame the trade network for consumer-goods supply problems, retail trade officials are fond of reproaching industry for delivering

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the wrong quantity and assortment. Industry officials in turn point to insufficient or late deliveries of the raw materials they need to manufacture consumer goods. There is merit in all of these complaints. But the key to the side-by-side existence of shortages and surpluses is the lack of strong interest by factories in the marketing side of their operations. To redress this, government decrees in recent years have put increased emphasis on contracts between trade organizations and production enterprises, and on ruble-value sales of factory output. By most accounts, however, neither of these two types of measures has been effective. Wholesale and retail trade organizations have shown little interest in filing complaints against production enterprises violating their contracts. Penalties paid by factories are small and do not induce industry to adhere to contract obligations. In addition, trade organizations are reluctant to antagonize suppliers.

Furthermore, gross value of output and sales indicators used to measure enterprise plan fulfillment have caused additional product-mix distortions. In several cases, industry has been able to increase the value of ruble output without increasing the actual amount of production by raising the share of higher cost goods or by introducing "new" goods with a price higher than justified by changes in production costs. For example, according to the Soviet press, during 1976-80 the production of steel enamelware at enterprises of the USSR Ministry of Ferrous Metallurgy grew by 21 percent in rubles but declined by 26 percent in physical measure, or by some 40 million units. In the first half of 1981, republic ministries of local industry fulfilled the plan for production of felt footwear in rubles, but physical output fell 7 percent, or by 100,000 pairs. Similar developments in the production of leather footwear, crockery, and wallpaper have been described by the Soviet press. Manipulating the assortment plan in this way leads to retail price inflation as consumers pay higher prices for goods that are essentially the same as lower priced items no longer available.

*The Problem of Quality Control.* Despite much official rhetoric devoted to the need to increase product quality, the results have not been impressive. An article in a recent issue of the official retail trade journal declared, "The situation with regard to the

quality of consumer goods, in our view, not only is not improving, but on the contrary is giving cause for more anxiety as time goes on." The share of output from light industry with the "Seal of Quality" -- meaning that the product meets international standards -- was 13 percent in 1981. Although this is better than the 2 percent cited in the Soviet press for 1975, complaints about product quality at all levels are still endemic and show no tendency to abate.

The USSR Ministry of Light Industry, for example, considers 40 percent of the textile industry output in the Russian republic (as well as several other republics) to be substandard. According to data gathered by trade inspectorates, 15 percent of the furniture produced in the USSR is defective. In 1981, according to USSR Minister of Trade Struyev, spot checks by trade inspectorates of goods delivered to the trade network showed 9 percent of the fabrics and leather footwear and 7.5 percent of the clothes to be of unacceptably low quality. Although trade enterprises have the right to reject goods that do not meet the quality standards claimed for them and exact fines in return, little use is made of this prerogative. Only obviously defective goods are turned away. Fines usually are not sufficient to compensate for the quality differences. In addition, retail trade organizations must meet sales targets and are thus reluctant to reject goods that they stand some chance of selling. Consumer dissatisfaction with the trade network is not limited to the poor quality of goods. Some of the chronic spot shortages and erratic distribution occur because there is not enough inventory in wholesale organizations to shift goods quickly in response to the shifting requirements of retail outlets.<sup>11</sup>

As a result of these inconsistencies between production and consumer demand, 3 to 4 billion rubles worth of unsalable goods accumulate in the trade network every year, with an especially large amount noted by Soviet open sources in 1981. Nonetheless, such inventories amount to only about 1 to 1.5 percent of total

<sup>11</sup> Countrywide transportation snarls in recent years have played an increasing role in difficulties with consumer goods deliveries.

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trade turnover; Soviet consumers may be dissatisfied, but they have not stopped buying because they cannot find the goods they want.

#### Strategy in the 1981-85 Plan Period

Moscow's consumption strategy for the 1981-85 Plan centers on continued restraints on income growth, various measures to absorb purchasing power, and increased output of quality foods. A curb on wage and salary increases plays a leading role in the Plan. If plans are adhered to, overall growth in average incomes from employment during 1981-85 will be about 15 percent:

- The average monthly wages of wage and salary workers are to increase 14.5 percent by 1985, or at an average annual rate of 2.7 percent.
- Payments to collective farmers are to increase 20 percent, or at an average annual rate of 3.7 percent

Meanwhile, growth in transfer payments is planned at 23 percent (or 4.2 percent per year) in 1981-85, the lowest rate for a five-year plan. If this target is met, per capita increases in transfer payments will be between 17 and 18 percent by 1985. As a result of increased wages and transfer payments, per capita money incomes will grow by roughly 16 percent by 1985, or about 3 percent a year, compared with the 4.1-percent average annual rate of 1976-80. In 1981 and 1982, wages of wage and salary workers grew at rates below plan, and wages of collective farmers at planned rates.

Growth of real income is likely to be appreciably less as a result of retail price increases. The Chairman of the State Price Committee has stated that, although prices for "essential" goods will not rise, price increases for other goods cannot be ruled out. In addition, the price creep caused by the "new product" pricing phenomenon and substitution of high-priced for low-priced goods is likely to continue. If the agricultural sector continues to falter, collective farm market prices also will continue to rise. Throughout the past decade, the average annual rate of inflation in retail prices has been slightly under 2 percent. If this pattern continues, growth in real per capita income will be only about 1 percent a year.

Not all groups will experience slower wage growth.

Wage increases remain a primary means of providing incentives, and the regime plans to apply it in several flagging areas of the economy. Coal miners, for example, are receiving a 25-percent wage increase in the 1982-83 period. Wages are slated to rise more rapidly than the average in construction, rail transport, and in some other problem sectors, as well as in regions where poor living conditions cause high labor turnover. Wage increases for some other groups, therefore, will be less than the planned average and could contribute to morale problems.

As is always true of Soviet plans, wage increases are not supposed to exceed productivity increases. In 1982, however, average monthly wages for industrial workers grew by 3.4 percent while industrial productivity increased by only 1.5 percent.<sup>12</sup> For the 1981-85 period as a whole, moreover, growth in wages in general is likely to exceed advances in productivity. Wage payments are likely to rise by more than 2 percent a year, while—in line with recent trends—productivity gains are very likely to fall below 2 percent a year. The planned average annual rate of increase in labor productivity in both industry and socialized agriculture of 4.2 percent during 1981-85 is unrealistic.

Retail sales are to grow by slightly more than 4 percent per year during 1981-85. Since this planned rate is higher than the likely increase in total disposable income (3 percent per year), the plan implies a slower growth of savings. Within the retail sales categories, the supply of industrial consumer goods is to grow at an average annual rate of almost 5 percent during 1981-85. Production of durable goods alone is to increase by almost 7 percent per year. These targets are not likely to be met. Thus, to meet the retail sales targets, increased imports of consumer goods probably will be required.

#### Outlook

On balance, the regime appears to be taking a cautious approach on consumer issues. Without impinging on defense or industrial investment, it has

<sup>12</sup> Industrial workers comprise about one-third of total wage and salary workers.

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little room for maneuver until the Food Program pays some return and more resources can be spared for the production of soft goods and consumer durables.

Although the quality and assortment of manufactured consumer goods will continue to improve somewhat, a sellers market will continue to prevail, with lack of responsiveness by manufacturers to consumer desire still the rule. The most serious imbalances are likely to be concentrated in those areas of consumption where the quantities of goods and services demanded and supplied are already most seriously out of line. Only slow progress in mitigating these imbalances is likely.

**Imports and Retail Prices.** Although imbalances in some specific markets such as quality foods may worsen, the overall disequilibrium in consumer markets is likely to remain under control through the mid-1980s. Because growth in domestic output of consumer goods may well be somewhat less than that of incomes during 1981-85, the leadership will need to compensate. Moscow could increase imports of consumer goods and/or allow some measure of inflation to absorb the increased purchasing power--through selective official price increases and through unofficial price increases resulting from substitution of higher-priced products and simulated innovation.

To maintain at least some growth in consumption, Moscow will have to continue substantial imports of grain, foodstuffs, and some manufactured consumer goods. But because these imports would likely come at the expense of machinery and technology imports, Moscow probably has not yet decided whether to increase its hard currency purchases of grain and foodstuffs much beyond current levels. The Soviet Union may instead increase the pressure on some of its East European trading partners to deliver more consumer goods.

Some leadership waffling on the longstanding commitment to stable retail prices for basic goods has appeared. A December 1982 *Pravda* article on the waste of bread included letters by readers advocating higher bread prices, and a contribution to the same article by the first deputy minister of the food industry lacked the usual promise of no price increases. In his well-publicized visit with Moscow factory workers

in February 1983, Andropov left the door open to price hikes, saying that "the path of rising prices . . . does not suit us as a general one, although it must be said we do have certain distortions and discrepancies in prices and we must eliminate them." But the regime has held off widespread changes in food prices, probably gambling that a good year in agriculture would mean more foodstuffs in the shops for people to buy, and that this (combined with price increases for a range of nonfood goods and services in 1981 and early 1983) would sop up enough rubles to ease pressures on supplies of quality foods.

**Experiments in Planning.** Andropov's approach to the chronic mismatch between consumer wants and the assortment and quality of manufactured goods is not likely to yield significant results. Last July the Andropov administration authorized a limited and cautious experiment in industrial management. This pilot project, to begin in January 1984, involves five ministries, three of which produce primarily consumer goods but are only republic ministries: the Ukrainian Ministry of the Food Industry, the Belorussian Ministry of Light Industry, and the Lithuanian Ministry of Local Industry. Most of the salient provisions of the decree are restatements of provisions contained in the two major industrial reform programs of the Brezhnev era. The basic aims are to give managers more say in the planning process, encourage technological renovation, and provide for wider differentiation in basic wage scales to reward higher qualifications and productivity.

There is no mention of any changes in the centralized rationing of producer goods or of any move away from administered prices. As the first deputy chairman of Gosplan explained, "The expansion of enterprises' rights in planning and economic activity [in this experiment] is to take place in conditions where the decisive role of state centralized planning is preserved." The results of this experiment, like those of previous economic test programs, are not likely to hold up when applied on an economy-wide scale. This is because factories involved in such experiments generally receive priority attention from planners, a condition which cannot be sustained when the program becomes broadly based.

Andropov's insistence on approaching economic change with considerable circumspection is evident both in this July decree, and in his speech to service veterans a month later:

*Of course, comrades, in an economy of such dimensions and complexity as ours, one must take extreme care. Here more than anywhere the saying is true that one should measure seven times and cut once. It is for this reason that in making major decisions, we try to scrupulously study each issue. We embark on large-scale experiments to study calmly and unhurriedly how the proposed innovations work, and how they affect plan and labor discipline, labor productivity, and the efficiency of social production as a whole.*

The General Secretary's reluctance to promote more thoroughgoing changes in the economy probably arises in part from his recognition of the importance of guaranteed full employment in maintaining the bond between state and society. The typical Soviet citizen has an ingrained fear of unemployment and is well aware that unemployment has been a major problem in Western economies, and indeed, regards it as a systemic rather than a transitory characteristic of market economies. Successive Soviet regimes have been well aware of this risk-averse attitude, and have consistently pointed to full employment in the Soviet economy as a major advantage provided by the system. Such attitudes militate against reforms of the Soviet economic system which might result in greater responsiveness to consumer demand and a better standard of living in the long term but involve the risk of unemployment in the short- or mid-term.

**Investment Priorities.** Finally, some indications have appeared that Moscow may allocate some additional resources beyond those already included in the 1983 Plan for the food and light industries. Such allocations, however, might be at the expense of other industrial sectors which supply inputs to agriculture. How far the new leadership is willing to go in supplying additional resources, rather than simply shifting them among sectors supporting consumption, will be a clearcut signal of its consumer orientation. The 1984 economic plan and the discussions surrounding the formation of the 1986-90 Plan will provide some evidence on this question.

**Consumption: Levels and Popular Morale.** The trends in consumer demand and in consumer goods production and distribution, along with Andropov's approach to dealing with imbalances, mean that consumer dissatisfaction is not likely to be mitigated soon. Indeed, it may worsen as the share of the population born after World War II increases, memories of extreme hardship fade, and small improvements mean less to a more demanding population. The leadership will have to deal with the consequences of what is likely to be at best only slow growth in consumption for the duration of this decade.

The reactions of the populace to continuing consumption problems are likely to be manifested primarily in greater apathy toward the social and political values of the system. Such apathy could be reflected in the withholding of serious work effort, an increase in illegal private activity, and greater alcoholism, all of which would have a negative impact on labor productivity. In the current era of resource stringencies, this could do more damage to the economy and be more difficult for the regime to counter than an increase in sporadic incidents of civil unrest--an activity that the regime is better equipped to handle.

Soviet leaders, as noted earlier, are well aware of the importance of high worker morale for the economy. Like their Western counterparts, however, they cannot predict the behavior of the population on the basis of some model that integrates the connections among levels of living, regional and nationality differences, tolerance for greater discipline and repression, and the many other influences on the attitudes of the labor force. In a decade of slower economic growth, they will have to grope for the right combination of resource allocation and social policies that will permit desired levels of investment and defense spending while not undercutting internal order and stability or the basis for economic growth and military power by miscalculating the tolerance of the Soviet population.

## Appendix A

### USSR: Trends in Savings

During most of the period since 1965, the relative rise in personal savings has far exceeded the increase in personal incomes. The stock of savings has grown nearly eightfold since 1965 (sevenfold on a per capita basis), with the highest growth in the mid- and late-1970s. In 1980, 1981, and 1982, however, net increments to the stock of savings fell off sharply, from some 15 billion rubles in 1979 to 8.6 billion rubles in 1982. Increments to saving on a per capita basis also dropped steeply, from 51 rubles in 1979 to 25 rubles in 1982, (real 1970 rubles) and the ratio of incremental savings to incremental disposable income fell (table 1)

The ratio of savings to personal disposable income in the Soviet Union is near that of the United States, generally below that of other Western industrialized countries, near that of Hungary, and below some other East European countries (table 2). Over the long term, marginal rates of saving have steadily decreased (table 3). In the USSR, as in market economies, savings are a function of several factors, including national wealth, income distribution, investment opportunities, cultural patterns, pension plans, and guarantees against health catastrophies .

The international comparisons of average savings rates (table A-1) and of assets/spending ratios (appendix B) call into question the suspicion that most savings in the USSR are in some sense forced and serve as a reminder that Soviet citizens save for a number of reasons:

- The general unavailability of consumer credit and the relatively high prices of consumer durables and luxury goods mean that Soviet consumers must be prepared to pay sizable amounts of cash for a wide range of goods. In 1979, for example, only 4 percent of nonfood retail sales were made on a credit basis.
- Chronic irregularity in the supply of consumer goods encourages increased household liquidity. Prudent consumers wish to be in a position to buy goods quickly when they come on the market. The

need for liquidity stimulates savings both in the form of cash hoards and savings deposits (67 percent of all savings deposits are demand deposits).

- Like citizens in Western economies, Soviet consumers save to accrue interest. For the Soviet citizen, savings deposits are the only widely available legal means of investment.
- Soviet consumers, like their Western counterparts, save to spread income and consumption more evenly over their lifespan. Soviet parents and relatives also save to help young people set up households.

Finally, the response of the Soviet population to rumors of price increases indicates that forced savings are not so large as to pose a threat to social order. In September 1981, for example, Moscovites were generally aware of the impending sharp price increases for several categories of goods nearly a week before they were posted. Although US Embassy officials observed some increased queuing, they reported only a few instances of panic buying and scuffling—mostly at retail outlets for alcoholic beverages

Data are not available to establish a reliable time series for either the amount of currency in circulation or the amount of income from some privately earned income—legal or illegal.<sup>13</sup> Changes in either of these could affect the analysis of savings behavior. For example, large increases in the money supply, as some Western scholars argue, might indicate that the populace has increased its cash hoards and that savings in relation to income have not decreased. A jump in privately or illegally earned income, on the other hand, might indicate that savings in relation to income dipped more sharply than our data show because we are assuming that private and/or illegal

<sup>13</sup> For the intercountry comparisons presented below, however, we have estimated cash holdings for the Soviet population .

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income increases in proportion to the incomes that we track. In the absence of reliable data for either area, we assume that savings bank data are representative of trends in all savings and that income that cannot be accounted for follows the same trend as income for which data are accessible.

These caveats aside, the drop in savings rates can be attributed to an acceleration in consumer spending in 1980 and 1981 not matched by an equivalent rate of growth in total personal disposable income. Looked at another way, the drop in savings rates can be ascribed to slower growth in real incomes that led consumers to cut back on savings. Real personal disposable money income grew annually by 2.1 percent in 1980-81, compared with 3.4 percent annually in 1976-79.<sup>14</sup> Preliminary data for 1982 suggest that because of inflation the growth in the real income of the population was halted last year. Steep price increases for alcoholic beverages and several other goods in late 1981 probably were responsible.<sup>15</sup>

Growth in savings will probably continue to slow in the 1980s as inflation rates approach wage rate growth and as the proportion of wage earners, who tend to save, shrinks, while the share of pensioners, who draw down savings, grows. The labor force, which grew by nearly 20 million during 1971-80, is expected to increase by roughly 9.5 million during 1981-90. During the 1980s, 9.5 million people will reach pension age—more than twice the level of the 1970s.

<sup>14</sup> Inflation is measured by an "alternative" index of prices in state, cooperative, and collective farm outlets constructed by CIA (see appendix C)

<sup>15</sup> Since 1977, five rounds of retail price increases have been announced, covering so-called luxury goods, some categories of domestic transportation, alcohol and tobacco products, and other selected products.

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**Table A-1**  
**USSR: Marginal and Average**  
**Propensities To Save by Year**

	Net Additions to Real Per Capita Savings (1970 rubles)		Real Per Capita Disposable Money Incomes (1970 rubles)		Average Propensity To Save <sup>a</sup>	Marginal Propensity To Save <sup>b</sup>
	Total	Annual Change	Total	Annual Change		
1965	13.943		506.12		0.028	
1966	19.333	5.390	540.58	34.46	0.036	0.156
1967	17.794	-1.539	569.36	28.78	0.031	-0.053
1968	24.618	6.824	620.63	51.27	0.040	0.133
1969	27.078	2.460	648.77	28.14	0.042	0.087
1970	36.273	9.195	680.48	31.71	0.053	0.290
1971	27.927	-8.346	701.51	21.03	0.040	-0.397
1972	30.072	2.145	710.72	9.21	0.042	0.233
1973	31.312	1.240	737.85	27.13	0.042	0.046
1974	39.427	8.115	772.86	35.01	0.051	0.232
1975	45.423	5.996	797.09	24.23	0.057	0.247
1976	44.286	-1.137	826.71	29.62	0.054	-0.038
1977	49.096	4.810	844.88	18.17	0.058	0.265
1978	50.144	1.048	867.57	22.69	0.058	0.046
1979	51.361	1.217	877.54	9.97	0.059	0.122
1980	34.028	-17.333	897.98	20.44	0.038	-0.848
1981	28.307	-5.721	897.07	-0.91	0.032	
1982	24.530	-3.777	896.26	-0.81	0.027	

Source: Total savings are savings deposits plus bond purchases minus net borrowing. Bond purchases (state loans) and net borrowing are from tables C-1 and C-2 in appendix C. Per capita savings are obtained by dividing total savings by midyear population, which is from US Department of Commerce, Bureau of Economic Analysis, Foreign Demographic Division; per capita savings deflated by the "alternative" price index.

<sup>a</sup> Average rates of saving are real per capita savings as a share of real per capita disposable money incomes.

<sup>b</sup> Marginal rates of saving are the annual change in real per capita savings as a share of the annual change in real per capita disposable money incomes.

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**Table A-2**  
**USSR and Selected Countries:**  
**Net Additions to Savings as a Percent of**  
**Personal Disposable Income**

	1970	1975	1976	1977	1978	1979	1980	1981
<b>Per Capita GNP more than \$9,000</b>								
Canada	5.3	10.9	10.0	9.8	10.3	10.5	10.2	NA
France	16.7	18.6	16.4	16.6	17.5	15.9	14.1	NA
United States	8.0	8.6	6.9	5.6	5.2	5.2	5.6	NA
West Germany	14.6	16.4	14.7	13.6	13.7	14.2	14.4	NA
<b>Per Capita GNP \$7,001 to 9,000</b>								
Japan	18.2	22.1	22.4	21.0	20.6	18.3	NA	NA
Netherlands	14.0	14.5	14.6	12.6	12.3	11.4	NA	NA
<b>Per Capita GNP \$5,001 to 7,000</b>								
Czechoslovakia	4.3	3.5	4.1	4.1	2.0	1.6	2.8	3.3
East Germany	5.5	5.4	5.0	5.7	5.5	4.6	2.4	1.9
Italy	21.6	23.2	22.9	22.5	23.8	NA	NA	NA
United Kingdom	9.0	12.7	11.8	10.5	12.4	13.8	15.3	NA
<b>Per Capita GNP \$3,001 to 5,000</b>								
Bulgaria	8.7	8.0	6.7	4.3	3.3	7.4	6.0	5.5
Hungary	4.2	4.1	4.3	4.9	5.4	3.1	2.5	3.6
Poland	2.5	4.8	3.1	3.3	3.2	3.6	2.4	8.7
USSR	5.0	5.5	5.1	5.6	5.6	5.6	3.6	3.1

Source: Countries are grouped by per capita GNP in 1980 as given in Herbert Block, *The Planetary Product in 1980*, distributed by Bureau of Public Affairs, US Department of State, 1981; ratios for Western countries from *International Economic Indicators*, June 1981, US Department of Commerce; ratios for USSR derived from *Narodnoye khozyaystvo*, 1980, and column J, table 3 of appendix C of this paper; ratios for East European countries derived from *Statisticheskiy vyzhegodnik stran-chlenov SEV*, 1980, and Alton et al., *Research Projects on National Income in East Central Europe*, Nos. 70-77, 1982.



**Table A-3**  
**USSR: Marginal Rates of Savings \***

Years	Marginal Rates
1965-70	0.113
1970-75	0.110
1975-79	0.084
1965-79	0.088

\* Marginal rates of savings are the annual change in real per capita savings as a share of the annual change in real per capita disposable money incomes adjusted to a trend line basis for the period.

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## Appendix B

### USSR and Selected Countries: Ratios of Assets to Consumption Outlays

Both Western and Soviet writings have frequently interpreted the seeming growing imbalances in consumer markets—as manifested, for example, in long lines and frequent resort to rationing—and the large annual increments in savings of the 1970s as evidence of excessively large increases in purchasing power. According to this view, pervasive and overt inflation is avoided only because the authorities keep a tight lid on prices in state outlets; the regime's commitment to price stability then gives rise to repressed inflation, reflected in the accumulation of large stores of essentially involuntary savings.

In this interpretation, Soviet household savings are formed largely as a consequence of money-goods imbalance—that is, goods are unavailable in sufficient quantity to match purchasing power. Indeed, in recent years a spate of articles in Soviet economic journals and in the popular press, citing the eightfold growth in the stock of Soviet personal savings since 1965, have called for better economic planning to improve the money-goods balance. Some Soviet economists have noted in the open literature, for example, that as much as 50 percent of household savings may have accrued from an imbalance between purchasing power and the availability of desired consumer goods. In a recent article, economist and academician V. D. Belkov said that “the consequences of the commodity-money imbalance have outgrown the framework of the economy and have become a great social evil. Therefore, when ranking the goals and tasks of economic development for the immediate future, the achievement and maintenance of a balance should be put in first place.” Soviet planners fear the effects of higher-than-planned levels of purchasing power upon retail sales plans, work incentives, and black-market activity.

To test the proposition that a failure to control incomes and/or to supply enough goods and services to the population has led to a savings overhang in the USSR, we have compiled ratios of gross and net financial assets to consumer spending in the Soviet Union and selected other countries. The results of our

testing indicate that most personal savings in the USSR are not forced. Soviet financial assets are defined as currency plus bank deposits plus holdings of state bonds. Soviet financial holdings were put on a net basis by subtracting long-term debt and credits to the population of purchases in state retail and cooperative networks.<sup>1</sup>

The financial assets of Soviet citizens are overwhelmingly in the form of savings accounts, which amounted to 166 billion rubles at the end of 1981. The Soviets publish no figures on currency holdings, but we assume that they are 40 percent of savings deposits. The basis of this admittedly notional figure is a statement by Gosbank Chairman Alkhimov that currency holdings are far less than half of such deposits. We also compiled a series for holdings of state bonds (which may be considered fairly liquid because they may be sold at banks) on the basis of recently released data in the Soviet press. Finally, some information on personal-sector debt is published by the Central Statistical Administration.

On balance, we believe that our estimate of the Soviet savings/spending ratio is on the high side because:

- Our estimate of the population's currency holdings seems, on the strength of the Alkhimov statement, to be high.
- Our series on bond holdings includes holdings by collective farms as well as individuals.
- The data on debt exclude some forms of financial liabilities such as short-term debts.

The ratio of financial assets to consumption outlays for the USSR is quite low in comparison with those for the United States and the United Kingdom, where

<sup>1</sup> Our calculations include only financial assets since tangible (or physical) assets do not reflect unsatisfied purchasing power. Furthermore, most financial assets are liquid, and a hypothesis of a large, potentially destabilizing savings overhang presupposes that the overhang is composed primarily of money or assets readily convertible into money.

the phenomenon of unrequited purchasing power is absent (table B-1). The ratio for the USSR has doubled since 1965, and recently stabilized; for the two market economies the ratio has declined, a development which largely can be explained by shifts of financial assets into holdings of tangible assets and growth of consumer debt. In relation to Hungary, however—a CEMA country where consumer markets are largely in equilibrium and queues and rationing are generally absent—the Soviet ratio is somewhat higher. But the ratio of *gross* personal financial assets (debt is not subtracted) to household outlays (table B-2) is roughly the same in both countries, suggesting that the degree of unspendable purchasing power in the USSR is no worse than in Hungary.<sup>17</sup> The gross asset/consumer spending ratio in Bulgaria is considerably higher than in either the USSR or Hungary. (Data for Bulgaria on net financial assets are not available.) Since imbalances in Bulgarian consumer markets have been no worse than in the USSR, the higher Bulgarian ratio also argues against the existence in the USSR of a large, involuntary savings overhang

Both the net and gross ratios between financial assets and consumer spending are higher in the USSR than in Poland. At first glance, this may seem odd because supply and demand imbalances have been more severe in Poland than anywhere else in Eastern Europe. The Poles, however, have allowed a far greater degree of overt inflation than any other Warsaw Pact country, so that rising prices have drained money from consumers that otherwise might have increased savings. The Soviet Government, on the other hand, has kept the rate of inflation for consumer goods at a relatively low level through subsidies in two subsectors of the consumer economy—housing and foodstuffs; Moscow has been especially reluctant to anger workers with price increases for consumption necessities at a time of low income growth.

<sup>17</sup> The case for using gross assets—that is, for not subtracting personal debt—rests on the assumption that savings are accumulated independently of debt in countries such as the USSR and Hungary, where yearly debt payments are likely to be small.

Table B-1  
USSR and Selected Countries:  
Ratio of Net Personal Financial Assets  
to Household Outlays for Consumption, 1960-81 -

Year	USSR	US	Hungary	Poland
1960	NA	3.37		
1965	0.41	3.27		
1966	0.43	3.32		
1967	0.44	3.13		
1968	0.46	3.24		
1969	0.48	3.38		
1970	0.52	3.08		0.23
1971	0.54	2.91		0.27
1972	0.56	2.91		0.29
1973	0.59	2.92		0.33
1974	0.62	2.67		0.38
1975	0.65	2.38	0.52	0.40
1976	0.69	2.47	0.52	0.40
1977	0.74	2.49	0.52	0.38
1978	0.78	2.33	0.53	0.38
1979	0.82	2.31	0.50	0.40
1980	0.82	2.42	0.50	0.37
1981	0.81	2.59	0.50	NA

\* End-of-year net financial assets divided by same year household outlays for consumption.

Sources: Figures for US derived from data provided by the Flow of Funds Section, Division of Research and Statistics, Board of Governors of the Federal Reserve System and from *Economic Report of the President*, Feb. 1982

Financial assets for the US personal sector include deposits and credit market instruments (this category includes currency holdings), corporate equities, life insurance reserves, pension fund reserves, and equity in noncorporate business; financial liabilities for the US personal sector include credit market instruments (home mortgages, other mortgages, installment consumer credit, and bank loans) and deferred and unpaid life insurance premiums.

Figures for the USSR were derived from *N. Kn.*, various years, and our estimates of household outlays for consumption are explained in table I. Since financial accounting for

the Soviet personal sector is not available, holding of currency by individuals is assumed to be 40 percent of the yearly amounts of personal savings in banks, which may overstate the case. State Bank Chairman Alkhimov has stated that the ratio of currency holdings to savings bank deposits is "far less" than .5. This, plus personal savings deposits plus holdings of state bonds by the population and collective farms, minus the long-term debt of the population credit granted to the population for the purchase of goods from the state retail and cooperative networks was considered the equivalent of net financial assets for the personal sector. The ratio for Hungary was derived from data in International Monetary Fund, *International Financial Statistics*, August 1982, and Thad P. Alton, et al., "Personal Disposable Money Income of the Population in Eastern Europe, 1970-1981," *Research Project on National Income in East Central Europe Occasional Papers*, 1982, and *Staticheskii ezhegodnik stran-chlenov soveta ekonomicheskoy vzaymopomoshchi*, 1981. The ratio for Poland was derived from Alton et al., and from *Rocznik statystyczny*, 1981, which gives savings, debts, and currency holdings of the population. The ratio for Bulgaria was derived from data in Alton et al. and *Staticheskii Ezhegodnik*; currency holdings of the population were assumed to be 40 percent of savings.

**Table B-2**  
**USSR and Selected Countries:**  
**Ratio of Gross Personal Financial Assets**  
**to Household Outlays for Consumption, 1965-81**

Year	USSR	US	Bulgaria	Hungary	Poland
1965	0.45	4.47			
1966	0.47	4.17			
1967	0.47	4.46			
1968	0.49	4.55			
1969	0.52	4.16			
1970	0.55	4.04	0.94		0.37
1971	0.57	4.12	1.03		0.39
1972	0.60	4.17	1.19		0.43
1973	0.63	3.84	1.28		0.47
1974	0.66	3.52	1.36		0.51
1975	0.69	3.66	1.34	0.74	0.52
1976	0.73	3.73	1.36	0.76	0.50
1977	0.77	3.61	1.36	0.77	0.50
1978	0.81	3.61	1.42	0.80	0.50
1979	0.85	3.67	1.53	0.78	0.52
1980	0.85	3.83	1.32	0.78	0.52
1981	0.84	3.61	1.34	0.81	NA

Sources: see table B-1.

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Appendix C

USSR: Calculations of Personal Money Incomes,  
Deductions, and Personal Disposable Money Incomes, 1950-82

Table C-1

USSR: Personal Money Income •

Billion rubles

	1950	1955	1960	1965	1966	1967	1968	1969	1970	1971	1972
1 Total personal money income	45.42	62.55	84.64	122.78	133.64	143.98	159.28	169.48	182.19	193.83	206.15
2 Gross earnings of wage and salary workers	32.00	44.51	59.97	89.05	95.83	103.40	115.09	123.31	132.05	140.02	148.74
3 Wage payments to collective farm members	1.18	3.06	4.94	8.53	10.23	11.88	12.54	12.82	12.99	13.24	13.62
4 Net incomes of households from sale of farm products	4.18	4.11	5.39	6.39	7.15	6.84	7.35	6.90	8.26	8.97	9.39
5 Profits distributed to cooperative members	NA	0.01	0.02	0.02	0.02	0.02	0.02	0.02	0.03	0.03	0.04
6 Military pay and monetary allowances	3.55	3.40	2.94	3.21	3.28	3.42	3.56	3.69	3.82	4.12	4.34
7 Transfer payments	3.87	6.00	10.39	15.01	16.55	17.71	19.93	21.80	24.04	26.28	28.70
8 Pensions and welfare payments	3.37	5.22	9.68	13.85	15.18	16.22	18.27	19.92	21.96	23.89	25.94
9 Pensions	2.40	3.20	7.26	10.60	11.80	12.60	14.00	15.00	16.20	18.00	19.80
10 Welfare payments	0.97	2.02	2.48	3.25	3.38	3.62	4.27	4.92	5.76	5.89	6.14
11 Stipends to students	0.46	0.74	0.60	0.90	1.00	1.10	1.18	1.30	1.30	1.40	1.50
12 Insurance indemnities	0.04	0.04	0.11	0.26	0.37	0.39	0.48	0.58	0.78	0.99	1.26
13 Loan service	0.51	1.43	0.70	0.10	0.10	0.20	0.20	0.20	0.10	0.10	0.08
14 Net borrowing	0.07	-0.09	0.06	0.09	0.02	-0.04	-0.06	-0.04	-0.03	-0.03	-0.01
15 Interest on savings	0.06	0.12	0.23	0.38	0.46	0.55	0.65	0.78	0.93	1.10	1.25

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Table C-1 (continued)

Billion rubles

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
1 Total personal money income	218.56	234.42	249.01	264.60	276.14	291.09	303.14	320.30	333.67	348.17
2 Gross earnings of wage and salary workers	157.83	168.97	178.74	189.36	198.14	208.41	216.72	228.01	235.90	245.02
3 Wage payments to collective farm members	14.33	14.66	14.34	15.05	15.58	15.98	16.17	16.61	16.67	17.41
4 Net incomes of households from sale of farm products	9.59	10.02	10.07	10.99	10.99	12.36	13.32	14.34	15.71	16.59
5 Profits distributed to cooperative members	0.04	0.03	0.03	0.03	0.04	0.03	0.03	0.04	0.05	0.05
6 Military pay and monetary allowances	4.37	4.77	4.86	4.93	4.96	5.02	5.10	5.14	5.16	5.20
7 Transfer payments	30.90	33.27	38.03	40.93	42.79	45.30	47.56	51.28	54.49	58.10
8 Pensions and welfare payments	27.49	29.17	33.39	35.42	36.84	38.85	40.79	44.01	45.43	49.60
9 Pensions	20.80	22.10	24.40	25.70	27.10	28.90	30.60	33.00	35.40	37.80
10 Welfare payments	6.69	7.07	8.99	9.72	9.74	9.95	10.19	11.01	11.03	11.80
11 Stipends to students	1.90	2.10	2.20	2.20	2.30	2.40	2.40	2.50	2.50	2.50
12 Insurance indemnities	1.51	2.00	2.44	3.31	3.65	4.05	4.37	4.77	5.56	6.00
13 Loan service	0.11	1.10	1.10	1.20	1.20	1.22	1.31	1.31	1.70	1.70
14 Net borrowing	-0.03	-0.02	-0.03	-0.02	0.02	0.05	0.08	0.07	0.29	0.27
15 Interest on savings	1.42	1.62	1.87	2.13	2.42	2.72	3.05	3.50	3.70	3.83

\* Sources and methodology are given on the following pages

Sources and methodology for table C-1 are as follows:

1 Total money personal income:

a All years—Sum of lines 2 through 7 and 13 through 15.

2 Gross earnings of wage and salary workers:

a 1950, 1955—*Narodnoye khozyaystvo SSSR v 1974 godu*, Moscow, 1975, p. 549, 562 (hereafter, *N. Kh.* and the appropriate year). Includes gross earnings of cooperative artisans of .88 billion rubles in 1950 and 1.17 billion rubles in 1955, respectively. Cooperative artisans earned a wage equal to two-thirds that of industrial wage and salary workers according to US Bureau of the Census, *Producers' Cooperatives in the Soviet Union*, by Frederick

A. Leedy, International Population Reports Series, p. 95, no. 51, Washington, DC, p. 14. The average annual number of artisans is reported in *N. Kh. 1964*, p. 545. The average annual industrial earnings are from *Trud v SSSR*, Moscow, 1968, p. 140. Producers' cooperatives were converted into state enterprises in 1960, and members were then classified as state workers.

b 1960, 1965-74—*N. Kh. 1975*, p. 531, 546. 1975-82—*N. Kh. 1980*, p. 357, 364. *N. Kh. 1982*, pp. 364, 370. Gross earnings are the product of the average annual number of wage and salary workers and average monthly earnings, adjusted to an annual basis.



3 Wage payments to collective farm members:

a 1950, 1955, 1960—David W. Bronson and Constance B. Krueger, "The Revolution in Soviet Farm Household Income, 1953-67," in James R. Millar (ed.), *The Soviet Rural Community*, University of Illinois Press, Urbana, 1971, p. 250.

b 1965-80—Derived for each year as the product of (1) official statistical handbook data regarding total wage payments (money plus in-kind) made by collective farms to collective farm members for their work in socialized activity of the farms and (2) the share constituting money payments only. Data for total wage payments (money plus in-kind) are available for 1965-70 in *Sel'skoye khozyaystvo SSSR*, Moscow, 1971, p. 479; for 1971-74 in *N. Kh. 1975*, p. 414; for 1975-82—*N. Kh. 1980*, p. 254, *N. Kh. 1982*, p. 255. Money payments accounted for 79.4 percent of total payments (money plus in-kind) in 1965 (V. N. Zhurikov and V. I. Solomakhin, compilers, *Spravochnik po oplate truda v kolkhozakh*, Moscow, 1973, p. 10); 85.6 percent in 1966; 92.4 percent in 1967; 93.7 percent in 1968; 96.9 percent in 1969 (S. V. Rogachev, *Ekonomicheskiye zakony i razvitiye sel'skogo khozyaystva*, Moscow, 1973, p. 217); and 93.6 percent in 1970 (Zhurikov and Solomakhin, *op. cit.*). Money payments are estimated to amount to 94 percent in 1971, in line with the 1970 share; to 95 percent from 1972 through 1976, and 96 percent during 1977-82. Withholdings from social security and social insurance are then deducted from 1965 on. According to V. V. Kochtarev, *Rol' kredita v povyshenii effektivnosti kolkhoznogo proizvodstva*, Moscow, 1977, p. 29, withholdings from payments to collective farmers were .599, 1.047, 1.440, and 1.584 billion rubles in 1965, 1970, 1973, and 1974, respectively. According to I. A. Usatov, *Ekonomika i finansy predpriyatiy*, Moscow, 1981, p. 250, withholdings for social security in 1979 were 6 percent of gross kolkhoz income. Usatov, p. 234, and L. S. Galimon, *Finansy sel'skogo khozyaystva*, Moscow, 1976, p. 207, state withholdings for social insurance are calculated as 2.4 percent of payments to labor

4 Net income of households from sales of farm products:

a 1950, 1955, 1960, 1965-75—Net income of households from sales of farm products is derived as the difference between (1) total money income of households from sales of farm products—sales to state procurement and state and cooperative trade organizations, sales in collective farm exvillage markets and commission trade, and sales of livestock to collective farms and (2) money outlays—purchases from outside the sector of materials and services used in production of these agricultural products and indirect taxes. Included in indirect taxes are fees charged collective farm market traders and taxes levied on livestock holdings of households. A detailed methodology is given in "USSR: Gross National Product Accounts, 1970," A(ER) 75-76, Nov. 1975.

b 1976-82—The above series is extended by using the growth rates derived from adding the sales of farm products to consumer co-ops and the sales of farm products at collective farm markets found in *N. Kh. 1980*, p. 421, *N. Kh., 1982*, p. 424.

5 Profits distributed to cooperative members.

Consumer cooperatives constitute a separate trade network, paralleling that of the state stores but designed primarily to service rural areas with stores and restaurants. A cooperative is usually composed of residents of a single village. Nominally, the cooperative system is controlled by its members, but the government actually exercises strict control over profits, prices, and earnings. A small share of profits is distributed to members. During 1962-65, 68.4 million rubles were distributed to cooperative members according to A. P. Ilyushin (ed.), *50 let sovetskoy potrebitel'skoy kooperatsii*, Moscow, 1965, p. 142. Total cooperative profits for those years were 3,389 million rubles (*N. Kh. 1963*, p. 637 and *N. Kh. 1964*, p. 747.) Dividing distributions by profits results in a distribution rate of 2.02 percent. This rate is applied to reported profits for each year.

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a 1950, 1960, 1965-67--*N. Kh. 1967*, p. 857.

b 1955--*N. Kh. 1960*, p. 843.

c 1970-74--*N. Kh. 1975*, p. 725.

d 1975-82--*N. Kh. 1980*, p. 503, *N. Kh., 1982*, p. 514.

6 Military pay and monetary allowances:

a CIA series in current rubles.

7 Transfer payments:

a All years--Sum of lines 8, 11, and 12.

8 Pensions and welfare payments:

The Soviet Union has established an extensive program of social services covering a wide range of contingencies. The state social security program--which includes benefits for sickness, maternity, and large families, and pensions for old age and disability--covers workers in state enterprises. Since 1965, a similar but more limited program has existed for collective farmers. Pensions and welfare payments are derived as the difference between total outlays for social security and social insurance, including pensions, and the sum of outlays for health resorts and sanatoria, kindergartens and pioneer camps, and miscellaneous.

a 1950, 1968-69--*N. Kh. 1969*, p. 771, 774.

b 1955--*N. Kh. 1958*, p. 905-906, adjusted, assuming relationship between expenditures in 1950 as reported in *N. Kh. 1958*, p. 905-906, and in *N. Kh. 1969*, p. 771, 774, applied in 1955.

c 1960, 1966-67--*N. Kh. 1968*, p. 776, 779.

d 1965, 1970-74--*N. Kh. 1975*, p. 744, 746.

e 1975-82--*N. Kh. 1980*, p. 381, 527, *N. Kh. 1981*, p. 419, 564, *N. Kh. 1982*, p. 381.

9 Pensions:

State workers and collective farmers are given pensions for permanent disability, survivor, old-age, and long service.

a 1950, 1968-69--*N. Kh. 1969*, p. 758.

b 1955-- Estimated to be 72 percent of pensions and welfare payments, based on the relationships existing in 1950 and 1960.

c 1960, 1966-67--*N. Kh. 1968*, p. 776.

d 1965, 1970-74--*N. Kh. 1975*, p. 744.

e 1975-82--*N. Kh. 1980*, p. 524, *N. Kh. 1981*, p. 564, *N. Kh., 1982*, p. 381.

10 Welfare payments:

a Total pension and welfare payments (line 8) less pensions (line 9).

11 Stipends to students:

a 1950, 1955--*Raskhody na sotsial'no-kul'turnye meropriyatiya po gosudarstvennomu byudzhetu SSSR*. Moscow, 1958, p. 46.

b 1960, 1969-70--*N. Kh. 1970*, p. 537.

c 1965, 1970-75--*N. Kh. 1975*, p. 568.

d 1966-68--Estimates based on numbers of students in higher education (*N. Kh. 1968*, p. 682, and *N. Kh. 1969*, p. 675) and average stipend paid in 1965 and 1969.

e 1976-81--*N. Kh. 1980*, p. 381, *N. Kh. 1981*, p. 419, *N. Kh. 1982*, p. 381.

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12 Insurance indemnities:

Sum of compensation received for personal property and life and accident insurance claims.

- a 1950, 1955, 1960, 1965-66—G. P. Kosyachenko, et. al., *50 let sovetskikh finansov*, Moscow, 1967, p. 347-348.
- b 1967-68—A. G. Zverev, *Natsional'nyy dokhod i finansy SSSR*, Moscow, 1970, p. 282.
- c 1969—*Ekonomicheskaya gazeta*, No. 41, 1971, p. 6.
- d 1970—*Finansy SSSR*, No. 1, 1971, p. 10.
- e 1971-72—Based on *Ekonomicheskaya gazeta*, No. 41, 1971, p. 6, and *Finansy SSSR*, No. 4, 1973, p. 8.
- f 1973—*Finansy SSSR*, No. 4, 1974, p. 14.
- g 1974—*Finansy SSSR*, No. 6, 1975, p. 59.
- h 1975—*Finansy SSSR*, No. 5, 1976, p. 17.
- i Indemnities for 1976-80 estimated by applying indemnities-to-premia ratio (.618) for the 1976-80 period as a whole to the premia figures for individual years 1976-80. A total of 20.167 billion rubles in indemnities was paid in the 1976-80 period according to *Finansy SSSR*, No. 10, 1981, p. 6.
- j 1981, estimated. 1982, *Pravda*, 6 June 1983, p. 3.

13 Loan Service:

- a 1950, 1955—*N. Kh. 1958*, p. 900.
- b 1960, 1965-68—*N. Kh. 1968*, p. 774.
- c 1969-70—*N. Kh. 1970*, p. 730.
- d 1971—*N. Kh. 1972-72*, p. 482.

Since 1971, budget reporting has carried no item on loan service. Estimates for 1972 forward are based on the following:

- e 1972-73—*Den'gi i kredit*, No. 1, 1974, p. 4. In 1972 and 1973, 2.6 billion rubles and 3.6 billion rubles of 3 percent lottery bonds were sold respectively.
- f 1974-75—*Den'gi i kredit*, No. 11, 1974, p. 90. The government resumed redemption of the subscription loans in December 1974. In 1974 and 1975, 1 billion rubles were to be paid to the population. Total loan service for each year also includes an estimated 0.1 billion rubles of payment for 3-percent lottery loans. *Finansy SSSR*, No. 4, 1976, p. 24, confirms that in 1974-75, 2 billion rubles of loans were paid off.
- g 1976—Loan repayments are estimated at 1.1 billion rubles. *Finansy SSSR*, No. 1, 1976, p. 6. confirms that loan repayments to the population are continuing. *Finansy SSSR*, No. 12, 1976, p. 7. states that the plan for 1977 loan repayments is 1.2 billion rubles. Three-percent lottery winnings are continued at 0.1 billion rubles, a reasonable estimate according to *Den'gi i kredit*, No. 1, 1975, p. 8, and No. 4, 1976, p. 5.
- h 1977-80—Estimated.
- i Total lottery bond holdings by the population are 7 billion rubles. *Izvestiya soveto narodnykh deputatov SSSR*, 1 Oct 1981, p. 6. *Pravda*, 23 Oct 1981, states that the plan for 1981 loan repayments is 1.5 billion rubles. 1982 estimated.

14 Net borrowing:

The difference between long-term loans to the population outstanding at the end of the given year and loans outstanding at the end of the previous year.

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- a 1950, 1955—*Vestnik statistiki*, No. 2, 1960, p. 89-92.
- b 1960—*N. Kh.* 1962, p. 639.
- c 1966-68—*N. Kh.* 1968, p. 779.
- d 1969—*N. Kh.* 1969, p. 774.
- e 1970—*N. Kh.* 1970, p. 735.
- f 1971-75—*N. Kh.* 1975, p. 747.
- g 1976-81—*N. Kh.* 1980, p. 528, *N. Kh.* 1982, p. 526.

For 1950, however, interest payments are assumed to equal 3 percent of total deposits because, according to *Vestnik statistiki*, No. 1, 1967, p. 22, interest payments were lowered from 3 to 5 percent to 2 to 3 percent in 1955.

- a 1950, 1968-69—*N. Kh.* 1969, p. 585.
- b 1955, 1968-69—*N. Kh.* 1969, p. 585.
- c 1966-67—*N. Kh.* 1967, p. 699.
- d 1965, 1970-75—*N. Kh.* 1975, p. 597.
- e 1976-77—*N. Kh.* 1977, p. 434.
- f 1978-80—*N. Kh.* 1980, p. 408.
- g 1981-82—*N. Kh.* 1982, p. 414.

#### 15 Interest on savings:

State savings banks offer the following major types of accounts for individuals:

- Demand (*vklady do vobrebovaniya*) paying 2 percent yearly interest;
- Time (*srochnyye vklady*) paying 3 percent yearly when held for more than 6 months;
- Lottery deposit (*vyigryshnyye vklady*) paying an average of 3 percent yearly in winnings. (A. P. Sakharov and V. K. Chirkov, *Operatsii sberegatel'nykh kass*, Moscow, 1973, p. 21-23).

For all years except 1950, interest payments are assumed to be 2.2 percent of average annual reported deposits, based on *Vestnik statistiki*, No. 1, 1967, p. 22, which stated that interest on savings amounted to 383 million rubles in 1965—2.2 percent of average annual deposits in that year. Demand deposits make up the bulk of savings accounts, amounting to 73.1 percent in 1971 according to *Den'gi i kredit*, No. 8, 1971, p. 68. The same article stated that no significant changes occurred in the distribution of deposits by category during 1965-70. In 1975, the proportions remained about the same; approximately 70 percent of savings deposits were in long-term accounts according to *Finansy SSSR*, No. 4, 1976, p. 22.

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Table C-2  
USSR: Deductions From Personal Money Income, 1950-82 \*

Billion rubles

	1950	1955	1960	1965	1966	1967	1968	1969	1970	1971	1972
1 Total deductions	6.92	8.77	6.90	9.89	10.95	12.03	13.69	15.26	16.97	18.45	20.22
2 Direct taxes	3.58	4.83	5.60	7.70	8.44	9.32	10.50	11.60	12.74	13.72	14.79
3 Personal income tax	2.04	3.55	4.64	6.77	7.50	8.36	9.50	10.54	11.61	12.54	13.57
4 Agricultural tax	0.80	0.44	0.40	0.36	0.35	0.35	0.34	0.33	0.33	0.32	0.31
5 Bachelor and small family tax	0.74	0.84	0.56	0.57	0.59	0.61	0.66	0.73	0.80	0.86	0.91
6 Local taxes	0.28	0.29	0.14	0.17	0.19	0.19	0.20	0.19	0.18	0.20	0.22
7 State loans	2.70	3.14	0.06	0.18	0.22	0.13	0.28	0.36	0.47	0.33	0.34
8 Trade union dues	0.24	0.36	0.55	0.86	0.96	1.08	1.20	1.28	1.38	1.45	1.54
9 Party membership dues	0.08	0.11	0.15	0.24	0.27	0.29	0.32	0.35	0.37	0.40	0.42
10 Insurance premiums	0.04	0.04	0.40	0.74	0.87	1.02	1.19	1.48	1.83	2.35	2.91

Table C-2 (continued)

Billion rubles

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
1 Total deductions	22.08	24.19	26.27	28.31	30.18	32.43	34.32	36.35	38.53	40.23
2 Direct taxes	15.83	17.12	18.36	19.63	20.70	22.07	23.16	24.51	25.50	26.60
3 Personal income tax	14.57	15.81	16.99	18.22	19.32	20.60	21.66	22.95	--	--
4 Agricultural tax	0.30	0.29	0.29	0.28	0.28	0.27	0.26	0.26	--	--
5 Bachelor and small family tax	0.96	1.02	1.08	1.13	1.16	1.20	1.24	1.30	--	--
6 Local taxes	0.24	0.24	0.25	0.26	0.25	0.28	0.29	0.29	0.30	0.31
7 State loans	0.38	0.44	0.56	0.60	0.60	0.60	0.70	0.60	0.40	0.10
8 Trade union dues	1.63	1.75	1.85	1.98	2.06	2.30	2.45	2.59	2.65	2.79
9 Party membership dues	0.44	0.46	0.49	0.52	0.54	0.59	0.61	0.65	0.68	0.72
10 Insurance premiums	3.56	4.18	4.76	5.32	5.94	6.59	7.11	7.71	9.00	9.71

\* Sources and methodology are given on the following pages.

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Sources and Methodology for Table C-2 are as follows:

1 Total deductions:

a All years—sum of lines 2, 6, 7, 8, 9, and 10.

2 Direct taxes:

a 1950, 1955, 1960—*Gosudarstvennyy byudzhel SSSR i byudzhety soyuznykh respublik*, Moscow, 1966, (hereafter *Gos. byud.*, 1966), p. 11.

b 1965-70—*Gosudarstvennyy byudzhel SSSR i byudzhety soyuznykh respublik, 1966-70 gg.*, (hereafter *Gos. byud.*, 1972) Moscow, 1972, p. 12.

c 1971-75—*Gosudarstvennyy byudzhel SSSR i byudzhety soyuznykh respublik 1971-75 gg.*, (hereafter *Gos. byud.*, 1976), Moscow, 1976, p. 9.

d 1976-80—*Gosudarstvennyy byudzet SSSR i byudzhety soyuznykh respublik 1976-80 gg.*, Moscow, 1982, p. 11.

e 1981-82 *N. Kh. 1982*, p. 520.

3 Personal income tax:

a 1950, 1955, 1960, 1965-70—sources a and b of 2 above.

b 1971-75—source c of 2 above.

c 1976-80—source d of 2 above.

4 Agricultural tax:

a 1950, 1955, 1960, 1965-70—sources a and b of 2 above.

b 1971-75—source c of 2 above.

c 1976-80—source d of 2 above.

5 Bachelor and small-family tax:

a 1950, 1955, 1960, 1965-70—sources a and b of 2 above.

b 1971-75—source c of 2 above.

c 1976-80—source d of 2 above.

6 Local taxes:

It is assumed that half of local taxes paid for state fees, building taxes and land rents, and one-time collections at collective farm markets are paid by individuals. In addition, local taxes include an "admission tax" paid solely by institutions (US Bureau of the Census, *The Soviet Financial System: Structure, Operation, and Statistics*, Washington, 1968, p. 127-28).

a 1950, 1955, 1960—*Gos. byud.*, 1966, p. 70, reduced by value of "admissions tax" from *Gos. byud.*, 1966, p. 70, and half the value of taxes paid on the three categories listed below.

b 1965-70—*Gos. byud.*, 1972, p. 77, reduced by value of "admission tax" from *Mestnyye byudzhety SSSR*, Moscow, 1970, p. 11. "Admission taxes" assumed to grow by 3 percent in 1969. Since 1969, "admission taxes" are assumed to be the residual—total local taxes less the sum of state fees and building tax and land rent.

c 1971-75—*Gos. byud.*, 1976, p. 74.

d 1976-82—estimated.

7 State loans:

a 1950, 1955, 1960—*Gos. byud.*, 1966, p. 11. Includes compulsory bond purchases of 2.6 billion rubles in 1950 and 3.0 billion rubles in 1955.

b 1965-70—*Gos. byud.*, 1972, p. 12.

c 1971-75—*Gos. byud.*, 1976, p. 9.

d 1976-82—*N. Kh. 1980*, p. 522, *N. Kh. 82*, p. 520.

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8 Trade union dues:

Trade union dues are the product of trade union membership and 1 percent of the average annual wage. The rate is found in *Spravochnik profsoyuznogo rabotnika*, 1979, Moscow, 1979, p. 387. The average annual wage is derived by adjusting the average monthly wage, found in *N. Kh.*, to an annual basis. Data on trade union membership are scattered but available for several years. Membership is established for 1949, 1954, 1959, and 1963 in Emily C. Brown, *Soviet Trade Unions and Labor Relations*, Harvard, 1966, p. 48. Membership for 1967 and 1971 is given in *Sovetskoye profsoyuzy*, estimated on the basis of percentage of state labor force belonging to the trade unions or by percentage increases in the state labor force. State labor force data are found in *N. Kh.* 1974, p. 549. Membership for 1976 is given in *Sovetskoye profsoyuzy*, No. 22, 1976, p. 2. Membership for 1977 is given in *Ekonomicheskaya gazeta*, No. 12, 1977, p. 24. Membership for mid-1979 is given as 125 million in Moscow Domestic Service, 28 June 79, membership for 1978 is assumed to be 120 million. Membership for 1 January 1980 is given as 127.3 million (*Politicheskoe samoobrazovaniye*, No. 1, 1981 and as 128 million in *Ekonomicheskaya gazeta*, No. 36, 1980; averaging the two yields 127.9 million. The figure of 128 million is used for 1981. *Partinaya zhizn'* No. 14, 1982 gives a figure of 131.2 million for 1982.

9 Party membership dues:

Party membership dues are the product of average annual party membership (estimated as of 1 July) and 1.5 percent of the estimated average annual wage of party members. Party membership is from *Spravochnik partiinogo rabotnika*, Moscow, 1978, p. 367. For 1978, from *Ezhegodnik Bol'shaya sovetskaya entsiklopediya*, 1978, p. 12; for 1979, *Pravda Ukrainy*, Feb 24, 1979; for 1980, Moscow Domestic Service, 1 Sep 1980; for 1981, *Ekonomicheskaya gazeta*, No. 16, 1981, p. 13. For 1982, see *Partinaya zhizn'*, No. 15, 1983. The average annual wage of party members is estimated to be 25 percent above the average for all state employees. The dues rate of 1.5 percent of wages is found in *Ustav kommunisticheskoy partiy Sovetskovo Soyuzu*, 1964, p. 385.

10 Insurance premiums:

- a 1950, 1955—*50 lyet soveitskikh finansov*, 1967, pp. 347-348.
- b 1960, 1965, 1970, 1975-76—*Den'gi i kredit*, No. 2, 1978, p.41.
- c 1966, 1969—Interpolated.
- d 1967, 1968, 1972—*Finansy SSSR*, No. 4, 1973, p. 8.
- e 1971—*Finansy SSSR*, No. 4, 1972, p. 4.
- f 1973—*Finansy SSSR*, No. 4, 1974, p. 14.
- g 1974—*Finansy SSSR*, No. 6, 1975, p. 59.
- h 1975—*Den'gi i kredit*, No. 2, 1978, p. 41.
- i 1976—*Den'gi i kredit*, No. 2, 1978, p. 41.
- j 1977—*Finansy SSSR*, No. 9, 1978, p. 3 gives voluntary insurance payments. It is estimated that these payments constitute 92 percent of total insurance payments by the population.
- k 1978—*Finansy SSSR*, No. 8, 1979, gives voluntary insurance payments, assumed to be 92 percent of total insurance payments by the population.
- i 1979—estimated by netting out premiums for 1976, 1977, 1978, and 1980 from total premiums, paid for the 1976-1980 period, derived from information in *Finansy SSSR*, No. 10, 1981, p. 6 that voluntary insurance premiums for the 1976-80 period was 30 billion rubles. It is estimated that voluntary insurance premiums constituted 92 percent of the total in 1980—*Finansy SSSR*, No. 10, 1981, p. 6 gives voluntary insurance premiums, assumed to be 92 percent of total. 1981-82 estimated.

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Table C-3  
USSR: Estimates of Personal Disposable Money Income, 1950-82

Year	Total Personal Money Income (1) (billion rubles)	Deductions From Personal Money Income (2) (billion rubles)	Personal Disposable Money Income (3) (billion rubles)	Per Capita Personal Disposable Money Income (4) (rubles)	Real Per Capita Disposable Money Income (1970 Prices) (5)	
					Deflated By Soviet Official Price Index (a)	Deflated By "Alternative" Implicit Index (b)
1950	45.42	6.92	38.50	213.77	166.07	219.16
1955	62.55	8.77	53.78	274.11	277.22	320.13
1960	84.64	6.90	77.74	362.76	364.58	404.41
1965	122.78	9.89	112.89	468.91	486.48	506.12
1966	133.64	10.95	122.69	525.44	527.02	540.58
1967	143.98	12.03	131.95	559.11	560.79	569.36
1968	159.28	13.69	145.59	610.70	612.53	620.63
1969	169.48	15.26	154.22	640.98	641.62	648.77
1970	182.19	16.97	165.22	680.48	680.48	680.48
1971	193.83	18.45	175.38	715.54	716.26	701.51
1972	206.15	20.22	185.93	751.23	752.74	710.72
1973	218.56	22.08	196.48	786.55	787.34	737.85
1974	234.42	24.19	210.23	833.92	836.42	772.86
1975	249.01	26.27	222.74	875.21	874.34	797.09
1976	264.60	28.31	236.29	920.13	918.29	826.71
1977	276.14	30.18	245.96	949.65	943.99	844.88
1978	291.09	32.43	258.66	989.90	976.23	867.57
1979	303.14	34.32	268.82	1,020.58	993.75	877.54
1980	320.30	36.35	283.95	1,069.49	1,030.34	897.98
1981	333.67	38.53	295.14	1,102.50	1,051.00	897.07
1982	348.17	40.23	307.94	1,140.94	1,049.62	896.26

Sources and methodology for Table C-3 are as follows:

1 Total personal money income:

a All years—table C-1 in appendix C.

2 Deductions from personal money income:

a All years—table C-2 in appendix C.

3 Personal disposable money income:

a All years—column 1 less column 2.

4 Personal disposable money income is converted to a per-capita basis using midyear population from US Department of Commerce, Bureau of Economic Analysis, Foreign Demographic Division.

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5 Real per capita disposable money income:

a Soviet Official Price Index.

All years—column 4 deflated by an index of prices paid by consumers for goods. The deflator is a weighted index based on the official retail price index (for example, *N. Kh. 1977*, p. 469) and a collective farm market price index derived from *N. Kh. 1977*, p. 452. For a complete methodology of the latter, see "The ACES Bulletin," Spring 1979. The weights are the respective shares of total sales in 1970 from *N. Kh. 1976*, p. 531.

b "Alternative" implicit price index.

All years—column 4 deflated by the "alternative" implicit price index, which is calculated by dividing Soviet-reported retail sales plus CFM sales in current rubles by the value of total estimated consumption of goods less the value of consumption in-kind, both in constant 1970 prices. Consumption-in-kind was calculated by Constance Krueger for benchmark years 1950, 1955, 1960, 1966, 1970, 1974, and by Barbara Severin for 1976 and 1980. Other years were interpolated geometrically on the basis of the trend in the share of consumption-in-kind in total consumption of food, 1975-79 extended at the 1976 level.

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## Appendix D

### USSR: Trends in Incomes

In seeking to preserve work incentives in the face of slowing growth in consumption, the authorities pay particular attention to the rise in incomes of the population in relation to planned production of consumer goods and services. Per capita disposable income (what each individual has left to spend after taxes and other largely obligatory deductions are netted out) has more than doubled since 1965 (see table D-1). The growth in incomes has slowed in recent years, however, as planners reduced the growth of wages and transfer payments in response to slowing growth in availability of consumer goods.

The traditional Soviet policy of trying to keep wage increases within the bounds of labor productivity gains led planners in the same direction in the late 1970s (table D-2). To maintain work incentives in the face of slowing wage growth, Moscow has relied increasingly upon more narrowly based incentive payments in an effort to tie labor effort more closely to specific results. In addition to the bonus fund established in every enterprise, there are more than 30 supplementary bonus funds for special purposes. Incentive payments comprise a growing share of wage payments. The Soviet press reported that 19 percent of payments to industrial labor in 1979 was in the form of various bonuses and awards paid out of either the wage fund, the material incentive funds, or special source funds, compared with 16 percent in 1973 and 9 percent in 1965. If extra payments for piece rate work were included, the figures would be higher. To improve incentives and stem rural outmigration, the authorities have promoted relatively more rapid growth for collective farm members than for state wage and salary workers. This policy—which is to be continued—has brought average wages of collective farmers from about 50 percent of the average wage and salary worker's earnings in 1965 to more than 70 percent in 1982.

Increments in wages and transfer payments—the two largest components of income—have slowed much as planned (see table D-3). With some increases in retail prices, the rise in real incomes has decelerated even more; real incomes stagnated in 1981-82 (see table D-4). The rise in the wage bill should continue to slow during the 1981-85 Plan period, as increments to the labor force drop sharply and as average wages continue on a path of declining growth. Planned wage increases for wage and salary workers (2.7 percent) and collective farmers (3.7 percent) in the present five-year plan are the lowest ever in the post-Khrushchev era, and the 1981 and 1982 results were within the five-year plan targets.

~~Confidential~~

Table D-1  
USSR: Trends in Per Capita Personal Money Incomes,  
Average Money Wages, and Transfer Payments, 1965-82

Year	Per Capita Disposable Money Incomes <sup>a</sup>	Average Money Wages <sup>b</sup>	Per Capita Transfer Payments <sup>c</sup>
<b>Current rubles</b>			
1965	489	1,052	65
1970	680	1,376	99
1975	875	1,666	149
1976	920	1,738	159
1977	950	1,791	165
1978	990	1,849	173
1979	1,021	1,894	181
1980	1,069	1,967	193
1981	1,102	2,008	204
1982	1,141	2,069	215
<b>Average annual percentage rates of growth<sup>d</sup></b>			
1966-70	6.8	5.5	8.8
1971-75	5.2	3.9	8.6
1976-80	4.1	3.4	5.3
1981	3.1	2.1	5.7
1982	3.5	3.0	5.4

<sup>a</sup> Column 4 from table C-3, appendix C.

<sup>b</sup> Weighted average of wage and salary workers and collective farmers.

<sup>c</sup> Includes pensions and welfare payments, stipends to students, and insurance indemnities.

<sup>d</sup> Calculated from unrounded numbers.

~~Confidential~~

Table D-2  
USSR: Average Annual Growth  
of Labor Productivity in Agriculture  
and Industry, 1966-80

Percent

	Soviet Official Measures			CIA Measures		
	1966-70	1971-75	1976-80	1966-70	1971-75	1976-80
Agriculture	NA	NA	NA	4.0	2.7	1.6
Industry	5.8	6.0	3.2	3.1	4.4	1.6
Ferrous metals	4.4	5.0	1.5	3.0	3.9	0.6
Nonferrous metals	NA	NA	NA	5.4	5.8	1.5
Fuel	6.9	7.8	1.6	4.2	6.3	3.0
Electric power	5.5	5.9	2.6	4.3	5.5	2.2
Machinery	7.8	8.6	6.2	2.8	5.0	3.1
Chemicals	7.6	8.2	4.2	3.8	6.3	2.2
Wood, pulp, and paper	5.3	5.3	1.8	2.5	3.1	0.1
Construction materials	5.6	5.7	1.1	2.3	4.0	0.3
Light industry	5.8	4.2	3.0	3.7	2.6	2.0
Processed foods	3.4	4.7	0.0	3.4	3.2	0.4

Sources: For Soviet figures, *N. Kh.* 1980, pp. 135, 277.

For CIA figures, "An Index of Industrial Production in the USSR" and "An Index of Agricultural Production in the USSR"—both in *USSR: Measures of Economic Growth and Development, 1950-80. Studies Prepared for the Use of the Joint Economic Committee, Congress of the United States, Washington, D.C.* Soviet measures of industrial labor productivity growth are generally higher than Western measures because Soviet measures of gross output (in so-called "constant prices") are biased upward by double-counting and disguised inflation resulting from new product pricing practices which leads to increases in nominal prices for "new" products (usually moderate to slight modifications in current models) in excess of the increase in cost of production.

~~Confidential~~

Table D-3  
USSR: Planned and Actual Growth  
in Average Wages and Social Welfare Benefits •  
1966-82 and Plan 1981-85

*Average annual percent*

	Average Wages for Wage and Salary Workers		Average Payments to Collective Farmers		Total Social Welfare Benefit Funds		
	Planned Growth	Actual Growth	Planned Growth	Actual Growth	Planned Growth	Actual Growth	Of which: Actual Growth in Transfer Payments
1966-70	3.7	4.8	6.6	7.9	7.0	8.8	9.9
1971-75	3.9	3.6	5.8	4.2	7.0	7.1	9.6
1976-80	3.2	3.0	4.7	5.2	5.4	5.4	6.2
1981	1.8	2.1	4.1	3.0	4.3	4.3	5.5
1982	2.6	2.8	NA	4.0	4.2	4.8	NA
Plan 1981-85	2.7	—	3.7	—	4.2	—	—

\* Wage figures are per employee. Social welfare benefit figures refer to the total fund, which includes both monetary and nonmonetary benefits. Transfer payments grew faster than other social welfare benefits, and the share of transfer payments in social welfare funds approached 50 percent in 1981.

~~Confidential~~

Table D-4  
USSR: Trends in Real Per Capita  
Disposable Money Incomes, 1965-81

Incomes Deflated to 1970 Price Base <sup>a</sup>		Index of Real Incomes (1970 = 100) <sup>b</sup>		Average Annual Percentage Increase in Real Incomes <sup>c</sup>	
Year	Rubles	Year	Index	Year	Increase
1965	506	1965	74	1966-70	6.1
1970	680	1970	100	1971-75	3.2
1975	797	1975	117	1976	3.7
1976	827	1976	122	1977	2.2
1977	845	1977	124	1978	2.7
1978	868	1978	128	1979	1.1
1979	878	1979	129	1980	2.3
1980	898	1980	132	1981	-0.1
1981	897	1981	132	1982	-0.1
1982	896	1982	132		

<sup>a</sup> From table C-3, column 5 b, appendix C.

<sup>b</sup> Differences in the composition of the consumption (figure 1) and money income measures account for most of the difference in their growth rates. The measure of personal consumption includes consumption of both home-produced and state-supplied goods and services as well as purchased goods and services. The income measure includes not only money spent but savings.

<sup>c</sup> Calculated from unrounded numbers.