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## The Economy Under Andropov (U)

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The poor performance of the economy during the latter years of the Brezhnev regime has driven home to the Andropov Politburo that there are relatively few opportunities for quick fixes and that the economic problems of the current decade may spill over into the 1990s (see inset). Thus, its policy decisions may be more forward looking. Andropov will be acutely aware that severe disruption of the economic system by the implementation of hasty, ill-conceived policies might be a quick route to both economic and political disaster. The Soviets will continue to be dependent on the West for significant purchases of agricultural products and machinery and equipment for both agriculture and industry, but—in view of their disappointing experience in commercial dealings with the United States—they probably will respond skeptically to US initiatives. ■

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### *Changes in Decisionmaking Process*

The new leadership probably will continue to favor bureaucratic centralism rather than move voluntarily toward fundamental systemic change. These leaders—because of the stringent economic situation and their own personalities—are likely to rely more on tightened discipline and control to effect economic policies of long standing than on coaxing desired behavior through increased incentives. Andropov's long tenure in the KGB has given him experience in using administrative measures to modify behavior. Moreover, the Soviet people, faced with unsettling economic and social problems, seem ready to accept a leader who would demand greater discipline. ■

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This trend, however, would not rule out a mix of liberal and authoritarian measures. Greater dependence on the private sector, for example, is a distinct possibility that could be classified as liberal, while harsher penalties for labor absenteeism and mismanagement, though authoritarian in nature, need not mark a return to Stalinism. ■

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### *Changes in Policy*

The new leaders will surely bring changes in economic policy. Because they have laid particular stress on

continuity, and because it may take some time to develop a strong consensus, new policy lines may not appear until 1984-85, when the Five-Year Plan for 1986-90 has been drafted. Some indications of change are likely to be discernible earlier, however, as discussion and debate about policies for the late 1980s ensues and annual plans for 1984 and 1985 are formulated. ■

The hardest policy decision for the Andropov leadership will be how to allocate resources among the major claimants. Maintaining historical growth in defense spending would squeeze investment and consumption further. Keeping investment growth at current rates as well might result in an absolute decline in consumption. ■

*The Military.* For the past several years we have seen little or no growth in military hardware procurement. More resources are needed to break economic bottlenecks, and a slowdown (or even zero growth) in military procurement for a few years would have little negative impact on forces already in the field; modernization of these forces could still proceed. We believe the groundwork for such a course may have already been laid in Brezhnev's speech to top military officers on 27 October 1982. In any event, this course will be required if the Andropov Politburo wants to improve economic performance substantially. ■

*Investment.* A strong candidate to receive more investment funds is the machine-building sector—because of the need to modernize Soviet industry and because of constraints on importing foreign machinery and technology. Modernizing machine building would also help justify a temporary slowdown in defense hardware procurement, as such modernization could ultimately enhance military hardware production. The new leadership, with its longer time horizon, might launch such an effort. ■

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*Outlook for the Soviet Economy in the 1980s*

*Soviet economic growth will continue to decline in the 1980s as average annual rates of increase in labor and capital decline and productivity gains fall short of plans. We expect average annual GNP growth to fall below 2 percent per year in the 1980s:*

- *The labor force will grow more slowly than it did in the 1970s—at an average annual rate of 0.7 percent compared with 1.5 percent.*
- *Growth in the productivity of Soviet plant and equipment, which has fallen substantially since 1975, will continue to drop as the cost of exploiting natural resources rises and Moscow is forced to spend more on infrastructure.*
- *Continued stagnation in the production of key industrial materials—particularly metals—will inhibit growth in new machinery, the key source for introducing new technology.*
- *Energy production will grow more slowly and become more expensive, whether or not oil production falls.*
- *With continued growth in domestic energy requirements, Moscow will face a conflict between maintaining oil exports and meeting domestic needs.*
- *Agriculture will remain the most unstable sector of the Soviet economy, with performance in any year highly dependent on weather conditions.*

*Slower growth of production will mean slower expansion in the availability of goods and services to be divided among competing claimants—resources for future growth (investment), the consumer, and defense:*

*Consumption. A leadership prone to authoritarian solutions is likely to be more pragmatic in its consumer policy and may place more stress on tying wages and prerequisites more closely to production results.*

- *Rapid growth in defense spending can be maintained only at the expense of investment growth.*
- *Slower expansion of investment will be compounded by the increasing demand for investment goods in the energy, transportation, metallurgy, and machinery sectors.*
- *An increased share of investment in heavy industries, together with continued large allocations to agriculture, will depress the expansion of housing and other consumer goods and services.*

*Making up production shortfalls through imports will become more expensive as the need for imports increases and Moscow's ability to pay (hard currency earnings) declines:*

- *The Soviet need for imports of Western grain and other agricultural commodities will remain high in the 1980s, as will requirements for Western machinery and technology.*
- *We expect real export earnings to decline between now and 1990 as sales of natural gas fail to offset the drop in oil earnings, and opportunities to expand exports of other commodities remain limited by their low marketability and tightness in domestic supplies.*
- *The availability of Western credits will be crucial for Moscow to maintain or increase its imports from the West; a tighter credit market would complicate Soviet economic problems and make resource allocation decisions more painful.*

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*Retail prices may also be raised on all but essential goods and services, and an expansion of privately operated consumer services may be in the offing.*

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*Reform.* The Politburo's predilection for administrative measures and bureaucratic centralism would severely limit the extent of future economic reform. The difficult economic situation argues against reform measures—like those launched in Eastern Europe—that have never been tested in the USSR. Some movement toward a regionally organized economy might be thought more suitable to today's problems—for example, exploitation of energy and raw materials in Siberia. [REDACTED]

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*Agriculture.* Moscow will continue to support the farm sector but might decide to favor the industries that support agriculture and those that process its output. The Food Program already does this to some extent, but an actual cut of investment inside the farm gate would be a stronger signal of the new leaders' dissatisfaction with the returns from agricultural investment. [REDACTED]

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*Labor.* In addition to instilling tighter discipline, the Andropov leadership is likely to focus on automating manual labor (consistent with more investment in machinery) and developing social and cultural infrastructure in labor-deficit regions. The latter would provide some inducement for workers to emigrate from labor-surplus areas and would reinforce a regionally differentiated pronatalist policy favoring the labor-deficit areas. [REDACTED]

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*East-West Trade.* With economic problems pressing from every quarter, the leadership might welcome—though perhaps not publicly—the opportunity to expand economic ties with the West in general and with the United States in particular, especially if decisions are taken to maintain slow growth in military hardware, step up investment in machinery, and reduce investment dedicated to the farms. Under these circumstances, Moscow might find it advantageous to press for (1) economic ties that provide the USSR with technology and goods for both civilian and military purposes and (2) arms control arrangements that limit Western advances in military technology which they would find difficult and costly to counter. [REDACTED]

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*Impact of Changes.* These changes in approach and policies will not be a panacea for the Soviet economy's ills. Nevertheless, they could bring marginal improvements in key areas and allow the leadership to

continue to muddle through even in the face of economic conditions probably worse than they had expected. Of primary importance to the Politburo, these policies would not require the surrender of power and would continue to allow it the freedom to impose its will on the smallest economic or administrative unit. In this way, the leadership could feel assured of its ability to handle such problems as public unrest, external economic or military threats, or internal disasters that would require an emergency redistribution of resources. [REDACTED]

*Economic Relations With the United States*

Notwithstanding the importance of expanded economic ties with the United States, the Soviet experience in commercial relations with Washington has been disappointing to Moscow since the mid-1970s, and it would probably take a strong US initiative just to get the attention of the Soviet leaders. Although a offer to renew close economic ties with the USSR might be welcome, it would probably be greeted skeptically by the Soviet leadership as primarily a tactical maneuver—a further retreat by Washington (following the grain and pipeline decisions) brought about by US-West European economic competition and pressures from US business circles. Needing to consolidate his power, Andropov could not—even if he wished—respond unilaterally to such an initiative, but would have to move within a leadership consensus strongly influenced by the views of Foreign Minister Gromyko and Defense Minister Ustinov, who would urge caution. Thus the Soviets might:

- Accept part of the offer as a means of coping with particularly acute bottlenecks, especially in technology and food supplies.
- Seek to avoid long-term economic dependencies on the United States.
- Exploit any new atmosphere of mutual accommodation as a means of reinforcing support in the United States and Western Europe for cutbacks in defense spending and arms control measures favorable to Soviet interests. [REDACTED]

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The United States, for example, could again become an important source of Soviet purchases of agricultural products and machinery and equipment for both agriculture and industry. The need is there, if the "price" (including sanctity of contract) is right. Soviet agriculture could benefit substantially from US technology in livestock feed production, fertilizer application, and animal breeding, and the United States is still Moscow's best long-term bet for grain imports on a large scale. ■

The USSR faces increasing dependence on the West in developing and processing its oil and gas resources in the 1980s. The United States is the preferred supplier of most types of oil and gas equipment because it is by far the largest producer, with the most experience, the best support network, and often the best technology. In some products—for example, large-capacity downhole pumps—the United States has a world monopoly (albeit one that could be broken in a few years by entry of other Western producers), and the most critical needs of the Soviet oil industry are for just such equipment. ■

Because the prospects for Soviet hard currency earnings in the 1980s are far from bright, Western credits will have to cover an increasing proportion of Soviet imports from the West. An increase in the availability of US Government-backed credit could look very attractive to the new leaders in Moscow. ■

On balance we would expect the Soviets to give any US initiative low-key treatment, publicly casting doubt on US motives, but at the same time seeking to engage the administration in a dialogue about it. A US offer to return to a "business as usual" basis would probably not result in any surge in orders for US companies beyond the sectors in which the United States is already an important supplier. Moscow is at least as likely to use the opportunity created by a US offer to put commercial pressure on the West Europeans and Japanese and exacerbate existing tensions in the Alliance. At a minimum, Moscow would press for US Government guarantees regarding fulfillment of contracts, and it might seek repeal of the Jackson-Vanik and Stevenson amendments. In either case, it

would refuse to make any significant political concessions in return—which Andropov probably could not deliver even if he desired. If this process permitted the Soviets to acquire more technology on acceptable terms from the United States, they would do so—but not at the expense of established ties with Western Europe and Japan, or of their own long-term economic independence. ■

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