



*Directorate of
Intelligence*

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International Economic & Energy Weekly (U)

2 November 1990

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NR Record

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USSR: Economic Discontent in the Soviet Republics [Redacted]

[Redacted] SOVA, with a contribution from [Redacted] SOVA

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NR Record

Comments and queries regarding this publication are welcome. They may be directed to the editor, [Redacted] Directorate of Intelligence, telephone [Redacted]

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USSR: Economic Discontent in the Soviet Republics [redacted]

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Longstanding differences in levels of economic development among the Soviet republics have fueled economic tensions and strengthened the centrifugal forces at work in the Soviet Union. The European parts of the country, particularly the Baltics and the Russian cities of Moscow and Leningrad, have had the USSR's highest standard of living and most developed economies. On the other end of the scale, the economies of the republics of Central Asia have been much more primitive. These southern republics share many of the problems of developing countries—poverty, explosive population growth, and unemployment. During Gorbachev's term in office, the gap between the richer and poorer republics has increased, in part as a result of continued unfavorable demographic trends, tighter resource constraints, and Gorbachev's economic policies. [redacted]

Gorbachev's Inheritance

In terms of per capita proxy GNP, the gap between the northern and southern republics has persisted and widened since 1970. Most notably, the Russian Republic (RSFSR) has improved its position in relation to the rest of the country. The republics of the northwestern periphery generally fared much better than the southern republics. With the exception of Georgia, the economies of Caucasus and Central Asia fell even further behind the rest of the country. [redacted]

The gap in economic development between Soviet republics resulted from regional differences in natural resource endowments and uneven development. Sharp differences in population growth also contributed to the development gap. Although population growth in much of the industrial north has hovered at replacement levels, extremely rapid population growth in the southern Muslim republics has made it more difficult to improve levels of education and the quality and availability of jobs, housing, and medical care. Despite an avowed goal of diminishing regional economic disparities, Moscow's development policies in practice also played a role in increasing the gap. [redacted]

Measuring the Regional Development Gap

To gauge the growing development gap, we used a synthetic aggregate measure—called proxy GNP—developed by a leading US Sovietologist. Proxy GNP combines data on investment, government expenditures, and consumption of food, housing, education, and other social needs, covering approximately four-fifths of what is included in national GNP accounts. Although incomplete, this measure is probably a good indicator of changes in the relative economic standing of Soviet republics. [redacted]

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A review of investment, consumption, and government expenditures data by republic during the period 1970-85 demonstrates that Moscow chose to pursue national economic goals over achieving regional parity in income. For example, Moscow allocated resources where it believed they could be most productively utilized and not in order to systematically diminish economic disparities and deal with emerging regional economic problems. The goal of equalization took a back seat to other national priorities, including modernization of existing industrial capacity, the buildup of the defense sector, and increased energy production. [redacted]

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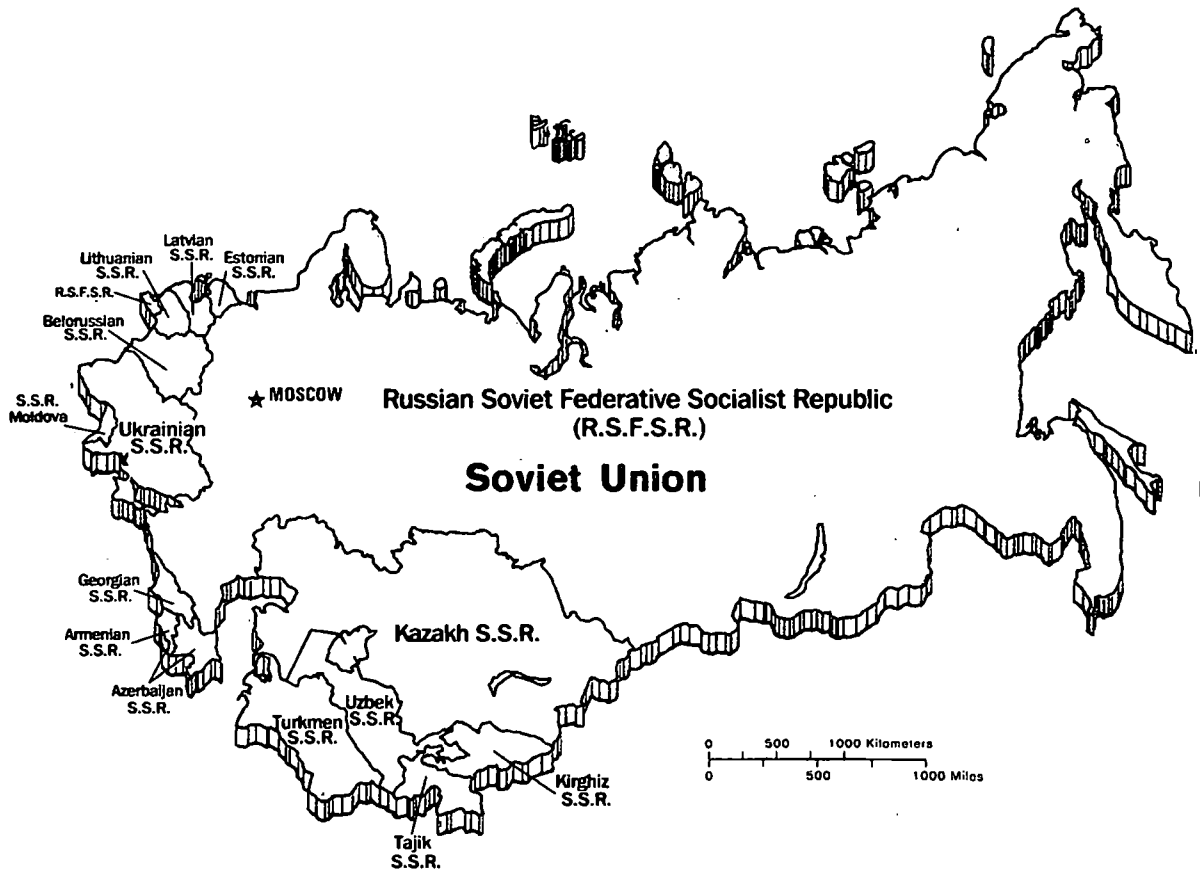
The rigid, highly centralized Soviet system of economic management also neglected regional considerations in planning and resource decisionmaking. Local authorities had little control over their own economies. Factories were often built without regard for the availability of local labor, without adequate housing or social services for the work force they attracted from other regions, and with little concern for the environment. Moreover, central planners emphasized regional specialization and economic interdependence rather than balanced development. As a result, many parts of the country developed lopsided economies dependent on one or two sectors. The economy of [redacted]

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The United States Government has not recognized the incorporation of Estonia, Latvia, and Lithuania into the Soviet Union. Other boundary representation is not necessarily authoritative.

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southern Central Asia, for example, was focused overwhelmingly on the cultivation of cotton, to the detriment of food production and the development of industry. [redacted]

Regional Development Under Gorbachev

Since 1985 the USSR's continuing economic slowdown, growing energy requirements, and Gorbachev's economic policies have played an increasingly important role in regional economic development:

- *Economic slowdown.* The decline in the rate of economic growth, which began in the early 1970s, and the more recent burden of the budget deficit have made Moscow reluctant to allocate resources to the less productive, less developed regions.
- *Energy needs.* Increasing domestic energy requirements, the rising cost of energy extraction, and the need for hard currency from fuel exports have led Moscow to channel a growing share of investment into Siberia and the Soviet Far East, to the detriment of economic development in other regions.
- *Economic policies.* Gorbachev's industrial modernization program, for example, emphasized the renovation and retooling of existing industrial capacity, particularly in the machine-building sector. As a result, more resources were directed to central manufacturing regions, leaving a small share of investment funds for the development of Central Asia and much of the Caucasus. [redacted]

Moreover, Gorbachev did not make the reduction of economic inequalities among the republics a policy goal. He urged the republics to take responsibility for their own development rather than wait for handouts from the center. Ethnic violence fueled by unemployment and poverty subsequently led Gorbachev to moderate this public stance and call for efforts to narrow regional gaps in economic development. Nevertheless, he has pursued a set of economic policies that have amounted to a "wager on the strong," which has meant a continuing flow of resources to the more developed republics. [redacted]

The antialcohol campaign of 1985-88 also had a differential impact on republic economies, disrupting trade, agriculture, and industry in the wine-producing republics of Azerbaijan, Moldavia, and Georgia. The sudden cutback in retail trade orders for wine drastically reduced winemaking profits, a key source of tax revenue for republic budgets. Moreover, tens of thousands of hectares of vineyards were uprooted during the height of the campaign, damage that will take years to undo. [redacted]

Decentralizing economic reforms favored the economies of more developed regions. Enterprise self-financing—a reform that requires enterprises to pay for their own operations but allows them to keep a larger share of their profits for investment and worker incentives—gave an advantage to manufacturing enterprises. Under the current pricing system, manufacturing is much more profitable than resource extraction and agriculture, which dominate the economies of the southern republics, Siberia and the Soviet Far East. Profitability also depends on the existing infrastructure of the region, access to supplies and markets, and the quality of equipment, labor, and management—all of which are better in the northwestern USSR. [redacted]

Gorbachev's Policies Fuel Tensions

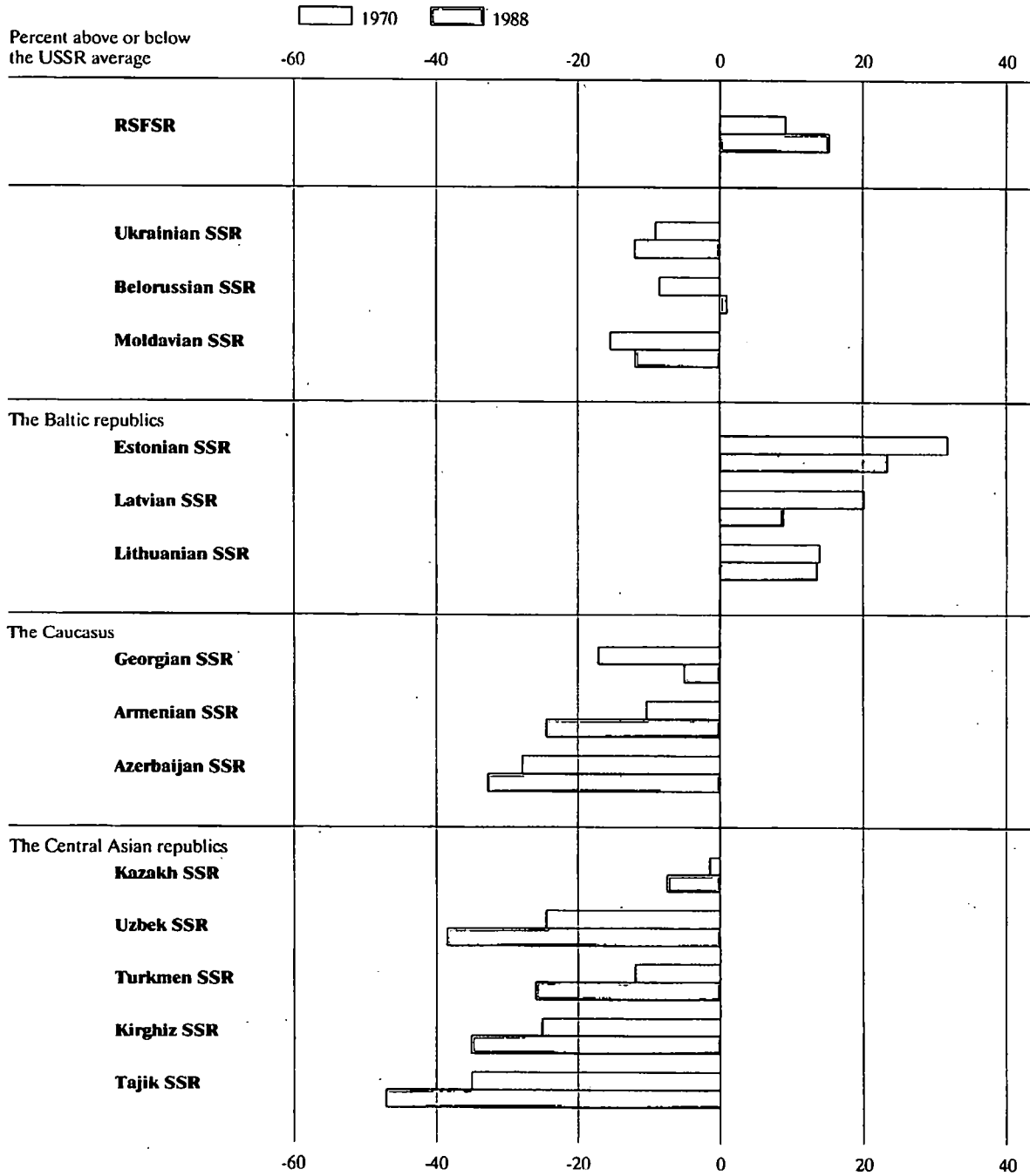
Economic chaos resulting from ill-conceived and poorly implemented economic reforms, as well as from ethnic and labor unrest, has resulted in a deterioration in living conditions in a number of regions. These conditions have heightened discontent over economic inequalities. They have also led to demands for increased autonomy, thereby enhancing the prospect of political fragmentation. [redacted]

The degeneration of traditional supply and distribution systems has increased regional discrepancies in the availability of food and consumer goods over the last two years. Regional disparities in food supplies, in particular, are likely to intensify, leaving regions that are not self-sufficient in food production worse off. Food shortages, in turn, have fueled popular protest. Farms and local leaders in some agricultural regions

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USSR Republics: Levels of Per Capita Proxy GNP, 1970 and 1988



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**Boris Yel'tsin—A Champion of
Russian Republic Rights**

Yel'tsin became a popular national figure as Communist Party leader of Moscow in the mid-1980s through his personal attention to the general welfare. He has further enhanced his stature by being the only national-level leader to break decisively with the CPSU, capitalizing on the antiestablishment mood in the country. He has pushed a program for political and economic change that would move the USSR rapidly toward Western-style concepts of democracy and a market economy: Whether Yel'tsin's program is driven more by philosophical principle or by political pragmatism is not clear, nor is it clear how well he understands the mechanics of a market economy, but—in contrast to Gorbachev—he appears to be convinced of the need for decisive actions. [redacted]

Yel'tsin apparently believes that, to survive, the Soviet Union must be transformed. He publicly supports republic autonomy, and a union in which the republics determine how responsibilities between themselves and the center will be distributed. But, in keeping with Russia's historical demographic and economic predominance, he sees his own republic as central to a new union. This view has made at least some non-Russian leaders skeptical of him. He has made clear his intention to forge a significant foreign policy role for the Russian Republic but would leave overall administration of foreign policy to Moscow during an unspecified transition period. [redacted]

In the months ahead, Yel'tsin faces challenges that could quickly erode his political standing. He is identified as the primary proponent of a bold turn to a market economy that is certain to cause more pain than gain in the near term. He has failed to prepare his constituents for the hard times ahead, and social unrest caused by the change could be laid at his doorstep. Pressures for independence from non-Russian nationalists are likely to raise tensions between Russians and non-Russians. Yel'tsin also faces obstacles in the provinces from local political bosses, mostly Communists, whose opposition might seriously hinder implementation of reform at the grassroots. [redacted]

have cut back on deliveries to central stocks to keep more food for local use and barter. Northern industrial cities—especially the “rust belt” of the Urals—and parts of Central Asia will have increasing difficulty maintaining the accustomed diet of their populations. Food producing regions of the USSR will fare better.

Limited Options

Gorbachev's options for dealing with the economic inequalities that are fueling tensions among the republics are limited. At a time when reducing the enormous budget deficit and increasing supplies of consumer goods have become top priorities of the regime, expensive regional development projects are luxuries Moscow cannot afford. As a result, the traditional Soviet strategy of throwing resources at a problem is no longer a viable option, and Gorbachev must look instead to two approaches that may enable him to get by “on the cheap.” The first, which has been pursued to some degree, is to leave the existing economic system essentially intact but turn over responsibility for most activities to the republics in hope that their greater concern with local conditions will translate into better economic performance. The second option is to supplement greater republic economic autonomy with price reforms and other measures that would facilitate the use of genuine market forces to redirect the flow of resources. [redacted]

As the Soviet leadership has come to acknowledge, price reform is necessary to improve the efficiency with which resources are used. Such a move is certain to have a major impact on relations among the republics. The current system of wholesale prices overvalues manufactured goods and greatly undervalues raw materials, energy, and agricultural products. Proposed revision of wholesale prices would attempt to redress this imbalance, improving the trade balance for republic economies geared to energy, agriculture, and raw materials. The areas that would benefit most would be the RSFSR, the Ukraine, the Kazakh, Turkmen, Kirghiz, and Tajik republics, and Moldavia. Energy and resource-poor republics—most notably the Baltic region—would be adversely affected by such a reform. [redacted]

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Privatization is another measure that must be pursued if the Soviet economy's prospects for recovery are to be enhanced, and it is one that could have a major impact on the relative rates of economic development among the Soviet republics. The experience of new cooperatives has clearly demonstrated that the republics differ substantially both in their public's support for private entrepreneurs and in the willingness of local officials to allow the expansion of these activities. The Baltic region, for example, took advantage of such reforms to a much greater extent than did the RSFSR and the Central Asian republics. [redacted]

Moscow's economic problems, Gorbachev is unable to promise the republics a steady—much less, quick—improvement in their living standards or a narrowing of their economic differences. Nor can he promise that the sacrifices and hardships required to solve these problems will be distributed evenly among the republics. This policy entails a great risk of encouraging the very separatist forces and tendencies that Gorbachev is trying to counter. Gorbachev's willingness to take this risk suggests, however, that at the moment he sees no other way to deal with the problem. [redacted]

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The Risk of Separatism

Privatization, price reform, and greater regional autonomy will not necessarily reduce economic inequalities among the Soviet republics and may even magnify these differences. Because of the enormity of

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