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*In this issue:
Managing Change*

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Managing Change

Perspective: Gorbachev's Program Builds Momentum

When the 27th Soviet Party Congress adjourned in March 1986, General Secretary Gorbachev had already moved with unprecedented speed to reshape the senior leadership, but his ability to translate personnel changes into action on his domestic agenda remained uncertain. Since then, his ambitious program for "restructuring" the Soviet system has gained demonstrable momentum in Politburo decisions and government legislation. He clearly has encountered more resistance than he anticipated, however, and that resistance is reflected in the kind of changes he has been able to make in economic management—highly impressive when compared to the accomplishments of his recent predecessors, but something less than the "radical reform" he has said is needed to revitalize the economy []

The pace of domestic policy initiatives has picked up noticeably since the congress, and the regime has already taken initial steps to implement most of Gorbachev's directives:

- To help shift the bureaucracy's focus from micromanagement to strategic planning and coordination, central coordinating bodies have been established to oversee the energy, construction, "social development," and foreign trade sectors, in addition to those for agro-industry and machine building announced before the congress []
- In response to Gorbachev's criticism of the wage-leveling trend of the Brezhnev years, a reform was enacted in August that is designed to widen substantially the disparity in wages between workers who perform well and those who do not.

- Gorbachev's promise to provide greater scope for individual initiative has already brought new legislation sanctioning a limited expansion of business opportunities for individuals and small groups outside the state sector, especially in consumer goods and services. An October decree allows the formation of profit-sharing cooperatives to collect and sell recycled materials, and a new law passed in November sanctions moonlighting by individuals in a range of activities from cottage industries to medical services.
- An ambitious five-year legislative program was announced in August. If implemented, it will address most of the economic and social problem areas Gorbachev has identified. The program includes specific target deadlines designed to keep up the pressure for further action.

One of the most dramatic developments has been the new momentum acquired by his *glasnost* (openness) policy, which is making the Soviet cultural scene more lively than at any time since Khrushchev's cultural "thaw" in the 1950s. Films, books, and plays are now being released that deal explicitly with such sensitive issues as Stalin's crimes, and commentators are openly discussing contemporary problems, such as drug abuse, that were once taboo.

Signs of progress on the issue he placed squarely at the center of his agenda—economic performance—have further strengthened his position. Industrial production as a whole is expected to grow faster this year than at any other time since the mid-1970s, and agricultural output seems headed for a recovery from its two-year slump.

Gorbachev also has established increased personal control over foreign policy decision making during this period. He has largely succeeded in putting his own foreign policy team in place and has vigorously pushed policy initiatives that depart from previous Soviet diplomatic practice.

Signs of Resistance

Despite these successes, Gorbachev's own comments, as well as some intelligence reporting, indicate that he has run into more resistance throughout the system than he initially anticipated. His frustration with this resistance has been evident in his increasingly bitter public criticisms of the party and government bureaucracies. The core of Gorbachev's immediate problem is the vast party and government apparatus that has

successfully stifled previous efforts to change the system. At the lower levels, Gorbachev has had considerable difficulty in making the regional party organizations responsive to the demands of the center, thanks in part to Brezhnev's lax personnel policies that allowed them to become virtually independent fiefdoms.

Resistance from the bureaucracy is reflected in the economic reform decrees that have been issued thus far, which have fallen short of the "radical reform" Gorbachev has called for in his speeches. His reforms have encountered resistance from ideological conservatives and foot-dragging from government bureaucrats worried that the changes he proposes will undermine their traditional privileges and status. Gorbachev's efforts to restrain the growth of defense spending and modify Soviet positions on security issues also have caused some reported uneasiness within the military.

[] indicate that one short-term effect of Gorbachev's reforms has been to produce widespread confusion and disarray in the bureaucracy. Many Soviet officials reportedly are finding it difficult to adjust to the pressure from Gorbachev for improved performance while trying to follow vague and often conflicting new instructions.

Such lower-level resistance will become even more significant if Gorbachev's ability to command a consensus at the top is in question. Gorbachev still faces a Politburo composed of a few loyalists who support him on most issues, a few opponents who tend to object to most of his ideas, and a group in the middle whose members are persuaded one way or another on the merits of the issue or on the basis of their perceived interests []

The problems Gorbachev is encountering are an inevitable response to the changes he is attempting to impose on the system. They have not yet stalled his program or diminished his determination to improve the system. He acknowledges that he is facing a long-term task that could take "generations" to complete. But even his Soviet supporters are concerned that he will need to show new gains against his opponents soon if he is to sustain the momentum for change he has generated.

Looking Ahead

Several developments over the next few months will provide clues to Gorbachev's progress in dealing with the resistance:

- *Adherence to published target dates for reform legislation and how closely that legislation reflects his ideas.* Those targets have been met so far, and significant delays or the passage of legislation that lacks substance would signal increased resistance.
- *Trends in the reform debate.* A resurgence of publications by conservative officials, who have been rendered largely silent by the current political atmosphere, would suggest that Gorbachev's reforms are coming under increased attack in the Politburo.
- *The momentum of Gorbachev's glasnost campaign.* A retreat from the decision to deal more openly with sensitive issues would suggest a strengthened position for the conservatives, who believe such openness could undermine the regime's legitimacy, and would be a serious blow to Gorbachev's effort to attack the root problems of the system.
- *How vigorously Gorbachev's social policies are implemented.* If his antialcoholism measures eventually are ignored or significantly scaled back, for example, the failure of that campaign could reflect an erosion of his political strength

Gorbachev also will need to demonstrate progress in meeting his goals of modernizing Soviet industry, increasing economic efficiency and discipline, and improving the quality, quantity, and variety of consumer goods and services. Published Soviet economic data, as well as information from a variety of other sources, will help determine whether Gorbachev is obtaining the kind of early positive returns in these areas that he will need to sustain the current momentum of his economic program [

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Gorbachev's "Radical Reform": A Progress Report

Taken together, the management reform decisions issued since the party congress in March 1986 give Soviet policy a strong push in directions that Gorbachev and reform-minded economists have recommended. But they also reveal the magnitude and complexity of the challenge Gorbachev faces and the degree of political compromise required in what he himself has described as a long, "step by step" process.

Gorbachev's call for a "radical reform" of Soviet economic management at the party congress marked the first time such a dramatic remedy had been prescribed by any Soviet official in recent years. In the months since the congress, he has further escalated his rhetoric, comparing the reform to a "revolution" and describing it as a major turning point in Soviet history. His strong commitment to reform also is reflected in a changed political environment that has turned economists whose ideas were once considered outside the mainstream into establishment figures

Precisely what Gorbachev means by "radical reform," however, remains unclear. He has described the goals of his reform only in the broadest terms, calling it an attempt to make the economy "function dynamically, like a self-regulating system." Abel Aganbegyan, one of his chief economic advisers, has used similar language, telling Westerners that the reform will eliminate the "dictatorship of the producer" and make the economy more responsive to demand

Such statements make the thrust of Gorbachev's reform effort fairly straightforward but tell us little about its intended dimensions. When combined with his references to the primacy of centralized planning and the continued adoption of taut plans, they leave considerable ambiguities about how large a role market forces might be allowed to play and how much "self-regulation" is to be introduced. And Gorbachev's assertion that the reform is to be conducted "on

the march, as we go along" suggests that he himself has not yet fully come to grips with such questions.

Gorbachev's Vision

Although Gorbachev has yet to present a detailed blueprint for reform, he already has embraced many of the reform economists' ideas and called for a number of changes that, when pieced together, provide a clearer picture of the kind of reform he has in mind. Briefly stated, the changes he has been advocating would:

- Streamline the central bureaucracy and shift its focus from day-to-day management to strategic planning and coordination.
- Increase the authority and responsibility of industrial and agricultural enterprises.
- Improve workers' incentives.
- Increase the flexibility of prices.
- Expand the role of personal initiative in both the state and private sectors

Enacting the Reform

An impressive number of economic management decisions have been issued since the party congress, and almost all of them bear this Gorbachev imprint (see inset). Few of these decisions go as far as the bold ideas advanced in his speeches, however, suggesting that he may have initially underestimated both the complexity of the issues involved and the bureaucracy's capacity for resistance to change.

Reorganizing the Bureaucracy. A cornerstone of Gorbachev's reform effort has been his attempt to reorganize and streamline the central economic bureaucracy. His insistence that this bureaucracy shift its focus from day-to-day management to strategic planning and coordination has been reflected in a number of organizational changes since the congress. Central coordinating bodies—in the form of bureaus, state committees, and commissions—have been established

**Key Economic Management Decisions
Since the Soviet Party Congress**

March	<p><i>Establishment of a Fuel and Energy Bureau under the Council of Ministers.</i></p> <p><i>Instructions to speed up the conversion to a two-tier management structure in all government agencies.</i></p> <p><i>Creation of a new State Committee for Computer Technology and Information Science.</i></p> <p><i>Decision to allow selected enterprises to engage in "wholesale trade" in means of production.</i></p> <p><i>Decree on improving the management of the agro-industrial sector.</i></p>
May	<p><i>Changes in the management of consumer goods production in light industry.</i></p> <p><i>Decrees prescribing penalties for "unearned income."</i></p>
June	<p><i>Measures to increase supplies for individual garden plots.</i></p>
July	<p><i>Management changes designed to improve the quality of industrial output.</i></p> <p><i>Decisions to expand the financial autonomy experiments at enterprises in Sumy and Tolyatti to encompass additional plants (July, August, September).</i></p> <p><i>Establishment of a new Ministry of Atomic Engineering.</i></p>
August	<p><i>Reorganization of the construction sector.</i></p> <p><i>Announcement of plans for new legislation during 1986-90, encompassing a broad range of activities from pricing to individual labor.</i></p>
September	<p><i>Reorganization of foreign trade.</i></p> <p><i>Reform of the wage structure.</i></p>
October	<p><i>Approval of the financial autonomy experiment at the Kuban Agro-Industrial Combine and an announcement that 14 similar combines are to be established.</i></p> <p><i>Establishment of a Social Development Bureau under the Council of Ministers.</i></p> <p><i>Regulations authorizing the formation of self-financing cooperatives for the collection and utilization of recycled material.</i></p>
November	<p><i>Law on individual labor activity</i></p>

to oversee ministries responsible for energy, construction, "social development," and foreign trade. Two new organizations—the State Committee for Computer Technology and Information Science and the Ministry of Atomic Energy—also have been established to perform work that previously had been scattered among several different agencies.¹

These moves all seem aimed at improving Moscow's ability to coordinate activities in a given economic sector, but they also have created yet another management layer and, unlike the earlier reorganization of the agro-industrial sector, have done little to meet Gorbachev's stated goal of paring the size of the economic bureaucracy. The agro-industrial reorganization, which eliminated a number of ministries, proved to be highly disruptive, and hopes for reducing the size of the bureaucracy now appear to rest on the completion of conversion to a "two-tier" management structure advocated by Gorbachev. This step eliminates the all-union industrial associations—the bureaucratic layer between the ministries' higher management and the production enterprises.

Increasing Enterprise Autonomy. In his effort to increase the authority and responsibility of industrial enterprises, Gorbachev's most significant achievement may turn out to be a new law, scheduled to be adopted at the next session of the Supreme Soviet, that codifies the enterprises' rights and gives them legal protection from bureaucratic meddling. (It remains to be seen, of course, how strictly the law's provisions will be enforced.) Other measures are more limited in their coverage. They give selected enterprises the right to:

- Deal more directly with their suppliers, rather than funneling their requirements through authorities in Moscow.
- Trade directly with foreign firms.
- Base their production plans on trade orders from customers.

¹Two important organizational changes preceded the congress. The Machine Building Bureau was established in October 1985 to oversee the work of the ministries in that sector, and the State Agro-Industrial Committee was created the following month by merging the ministries and state committees responsible for agricultural output

- Exercise greater financial autonomy and retain a larger percentage of their profits.

Although these measures represent a significant step toward increased enterprise autonomy, many of them apply to only a small number of enterprises or contain other restrictions that limit their impact:

- The decree allowing enterprises to acquire their supplies through "wholesale trade" applies primarily to enterprises of "nonproduction" ministries, like the Ministry of Culture, and excludes most of those in the industrial sector, where the supply problems Gorbachev has complained about have been most acute.
- Although 70 enterprises have been given the right to engage directly in foreign trade, that right is limited to "above-plan" production, and the enterprises can keep part of the resulting revenues only if the Foreign Trade Bank approves of their intended use of the funds.
- The decree allowing enterprises to base their production plans on orders from their customers applies only to the light industry sector and is weakened by its failure to allow enterprises to choose their own suppliers and by the continued priority assigned to centrally set targets.
- Only a limited number of enterprises will switch next year to the kind of "complete financial autonomy" now exercised by plants in Sumy and Tol'yatti, and that autonomy will not include any price-setting authority.²

Decentralizing Agricultural Authority. As part of his effort to decentralize authority in the agricultural sector, Gorbachev told the party congress that collective and state farms should be given greater control over the sale of their above-plan production. He conveyed the impression that a major reform on this issue was in the works by calling it a contemporary version of Lenin's "tax in kind"—a historic measure

² The Volga Automobile Plant in Tol'yatti is allowed to keep 52.5 percent of its profits, while the Frunze Machine-Building Production Association in Sumy can keep 71 percent. Both have been given discretionary authority in the allocation of their profits for technological reequipment, incentives, and other purposes.

that put an end to the state's confiscation of all farm surpluses and established stable, relatively low procurement targets.

When the decree was published in March, its chief decentralizing effect was to allow local officials to set their own targets for produce intended for "local supply" and to exchange food products with other regions, instead of channeling their requests through Moscow. Farms were also given the right to sell an increased percentage of their planned production at collective farm markets and through consumer cooperatives. The tax-in-kind symbolism was completely absent from the language of the decree, however, and there were no indications that the state's procurement targets would be significantly lowered—a necessary step for any major decentralization of production controls.

Another step toward agricultural decentralization came in September, when Gorbachev visited the Kuban Agro-Industrial Combine—the site of a well-known experiment in agricultural self-financing—to give the experiment his personal endorsement.³ His visit was followed by Politburo approval of the experiment and an announcement that 14 similar combines would be formed. Here, too, however, the continuation of high state procurement targets serves to limit the discretionary authority that can be exercised by such combines, even on an experimental basis.

Improving Workers' Incentives. Gorbachev's chief accomplishment in the area of workers' incentives has been the passage of a wage reform designed to reverse the leveling trend of the Brezhnev years and create a closer relationship between the workers' pay and the amount and quality of work they produce. Although this reform amounts to a pay increase for many categories of workers, no state funds have been set aside for that increase. The effectiveness of the reform

³ The Kuban Agro-Industrial Combine includes all the farms and supporting agencies in the Timashevskiy district of Krasnodar Kray and is supposed to be self-supporting. After selling a designated portion of its output to the state, the combine can sell the rest through its own network of food stores at prices it sets itself

will depend on whether the enterprises can raise productivity enough to finance these increases from their own resources.

Increasing Price Flexibility. Although Gorbachev has never suggested abandoning the system of administered prices, he has called for more "flexible" prices that reflect not only the costs of production but also other factors such as social utility and demand. The agro-industrial decree takes a modest step in that direction by allowing republic officials to set their own procurement prices for individual farm products, as long as the total budget is not exceeded. The timidity of this move and the fact that it has had no parallel in the industrial sector, however, lend credibility to reports from Soviet economists that pricing policy remains a highly contentious issue.

Encouraging Personal Initiative. Gorbachev's endorsements of family farms, individual garden plots, and the broader use of cooperatives in consumer services also have offered encouragement to those economists who favor an expansion of personal initiative. His promise to provide greater scope for individual initiative has already brought new legislation sanctioning expanded business opportunities for individuals and small groups outside the state sector, especially in consumer goods and services. An October decree allows the formation of profit-sharing cooperatives to collect and sell recycled materials, and a new law passed in November sanctions moonlighting by individuals in a range of activities from cottage industries to medical services. The impact of the decree on cooperatives is limited, however, by its emphasis on the "experimental" nature of the cooperatives and by restrictions on the categories of people allowed to form them.⁴ And it remains to be seen whether the new law on individual labor activity can undo the damage caused by earlier decrees on "un-earned income" that have caused widespread confusion about the legalities of certain activities and have served to discourage individual initiative.

⁴ These newly established cooperatives are to be composed primarily of retired people, housewives, and students. Factory and office workers may participate only in their free time.

Implementing the Reform

Many of these measures have proved even more difficult to implement than they were to enact. Gorbachev's reorganization of the economic bureaucracy, for example, has not gone smoothly. The dust has yet to settle from the agro-industrial reorganization that started nearly a year ago, and the foreign trade bureaucracy is said to be in considerable disarray. An *Izvestiya* editor claims that the Fuel and Energy Bureau established in March still has no clear mandate. And the State Planning Committee (Gosplan) has been slow to restructure its work. In an unpublished speech delivered to a writers' group in June, Gorbachev complained that Gosplan officials were continuing to "do what they want to do" and seemed to recognize "no general secretaries or central committees."

Gorbachev's effort to give enterprise managers greater autonomy apparently has been encountering resistance not only from the expected quarters—the ministries—but also from the enterprise managers themselves. In his speech to the writers' group, he complained that many enterprise directors were writing to the Central Committee to say: "We don't need rights and independence. Leave everything the way it was."

Conclusions: An Incremental Reform

Despite these problems, Gorbachev seems determined to persevere, and a published list of future measures now in the pipeline—from regulations governing Gosplan's operations to a revised pricing system—suggests no scaling down of long-term objectives. His economic advisers and other Soviet economists have estimated that the "first phase" of the reform will not be complete until 1990, and Gorbachev reportedly told the writers' group that it could take "generations" for the restructuring process to be completed. With that kind of timetable, he probably regards the measures adopted thus far as steps that lay the necessary groundwork for more far-reaching change.

Gorbachev's announced plans to expand and put more teeth in some of the decrees initially adopted (such as those on wholesale trade and agro-industrial management) clearly indicate that he views this reform as an incremental process. Whether dictated by political realities or his own uncertainties, such an approach has both benefits and drawbacks:

- By moving at a gradual and deliberate pace, he can avoid charges of recklessness and comparisons with Khrushchev's "harebrained" schemes.
- On the other hand, this incremental approach may cost him some of his reformist supporters and produce only marginal near-term results, providing more ammunition to the opposition.

This incrementalism also severely limits our ability to predict how far Gorbachev will be willing, or able, to push his ideas. If pushed to their extremes, they would create a radically different Soviet economy. The evidence thus far, however, suggests that his efforts to improve the system will be something of a trial-and-error process (he has openly predicted that "mistakes will be made") and that the dimensions of the reform ultimately will be determined by a combination of the economic results he obtains and his own political abilities.

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