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The June Plenum and Supreme Soviet Session: Building Support for Economic Change

An Intelligence Assessment

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The June Plenum and Supreme Soviet Session: Building Support for Economic Change

An Intelligence Assessment

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**The June Plenum and Supreme
Soviet Session: Building
Support for Economic Change**

Key Judgments

*Information available
as of 30 August 1987
was used in this report.*

General Secretary Gorbachev scored a major political victory at the Central Committee plenum and Supreme Soviet session in June, winning approval of a landmark program for comprehensive economic reform and securing leadership changes that will enhance his ability to control the policy agenda.

The plenum was part of a carefully worked out plan of action. The previous plenum in January had laid the groundwork for economic reform by calling for the "democratization" of Soviet institutions. The June plenum, which focused on reforms in the industrial sector, was followed by an announcement that agricultural issues would be on the agenda of an upcoming plenum.

Gorbachev probably did more to consolidate his political power at this plenum than at any other time since he became General Secretary. The plenum promoted three reform-minded party secretaries to full members of the Politburo: Gorbachev protege Aleksandr Yakovlev, the leadership's most outspoken proponent of measures to rejuvenate the political system; economics secretary Nikolay Slyun'kov; and agriculture secretary Viktor Nikonov. Their promotions not only give Gorbachev a working majority on most issues, but also dilute the power of "Second Secretary" Yegor Ligachev, who has been acting as a spokesman for more conservative party officials.

The plenum also approved Gorbachev's proposal to hold the first party conference in 47 years next June—a step that could allow him to further strengthen his position in the Central Committee, where his supporters are locked in battle with conservative Brezhnev-era holdovers who want to limit the scope and slow the pace of reform. Gorbachev probably will try to use the conference to increase his support in the Central Committee, change party rules governing elections to leading party bodies, and obtain authoritative backing for his increasingly radical policy agenda.

The plenum's approval of guidelines for a comprehensive economic reform package, along with the Supreme Soviet's ratification of a new Law on State Enterprises, marks a watershed in Gorbachev's quest for a "new economic mechanism." Previously, he had introduced limited economic reforms in a piecemeal fashion, and critics inside and outside the USSR

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had insisted that a comprehensive approach was necessary. The new program, to be almost fully implemented by the start of the 13th Five-Year Plan in 1991, is designed to sharply reduce rigid central control over economic activity. The plenum also approved decrees that outline specific changes in the planning, pricing, supply, and finance and credit systems and detail plans to reduce the size and number of central administrative bodies.

While Gorbachev's achievements at the plenum and Supreme Soviet session are impressive, they do not guarantee either his longevity in office or the success of economic reform. There are still significant limits on his power. Conservative forces are still represented in the Politburo and Central Committee, and some leaders previously allied with Gorbachev think he is pushing too far too fast. Above all, the vast governmental bureaucracy is notoriously resistant to change.

Real progress toward decentralizing the "command" economy is far from assured. The economic reform guidelines approved by the Central Committee and the new Law on State Enterprises contain numerous ambiguities and even contradictions that could be used to subvert reform. Moreover, managing the transition to new, unfamiliar economic practices will be a formidable task. Gorbachev is pushing for the most radical systemic change since the 1930s, and that effort, whatever its ultimate outcome, is bound to be highly disruptive over the next few years.

Thus, Gorbachev faces a considerable challenge as he seeks to build on the political achievements of June and craft workable solutions to still intractable economic problems. In the coming months, the leadership must resolve controversies over critical aspects of the new system in time for planners to begin preparations for the next five-year plan. The chances are high that Gorbachev will be pressured to make important compromises in order to stick to his timetable for implementation, and the tradeoffs negotiated could make or break reform. While advocates of caution and gradualism will be numerous, Gorbachev is likely to remain impatient with this approach and try to use his considerable political skills to push his colleagues further than they want to go.

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Scope Note

This paper analyzes the results of the June Central Committee plenum and Supreme Soviet session, with an emphasis on the politics of Gorbachev's economic reform effort. It does not attempt to evaluate the full economic impact of his reform program, since its components have been announced only in general terms. More comprehensive analysis of this reform package will follow in subsequent assessments as further details become available.

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The June Plenum and Supreme Soviet Session: Building Support for Economic Change

Preplenum Maneuvering

An Ambitious Agenda

The agenda Gorbachev had announced for the plenum—the creation of “an entire system for running the country’s economy”—could hardly have been more ambitious. He was calling, in effect, for the resolution of a whole range of complex and controversial issues that affect not only the operation of the economy but also the jealously guarded power and authority of key Soviet institutions. Perhaps even more audaciously, he was demanding that the documents spelling out these proposed reforms—of central management, planning, pricing, supply, finance, and credit—be hammered out in less than six months from his January announcement that such a plenum would be held.¹

The dimensions of that task soon became apparent when two groups that Premier Ryzhkov had instructed to prepare materials for the plenum reportedly produced drafts that were in sharp conflict on such essential questions as the role of the central organs.² Gorbachev was undaunted, however, and quickly put together a group of reform-minded economists—including Abel Aganbegyan, Pavel Bunich, Valeriy Makarov, and Aleksandr Anchishkin—that worked around the clock, according to [redacted] to prepare the plenum proposals.³ It was also during this preplenum period that a public debate of the draft Law on State Enterprises was conducted and Soviet academics were allowed to publish some of their most radical reform proposals to date—a tactic Gorbachev

apparently used to make his own positions seem more “centrist” by comparison and to put the conservatives on the defensive.⁴

Conflict Over Proposals

Even so, progress continued to be difficult. By late May, [redacted] told [redacted] that decisions still had not been made on a number of key reform proposals and that various options were still being vigorously debated. How much opposition Gorbachev’s reform proposals were encountering in the Politburo is not known, but the evidence suggests a lack of unanimity on some issues.⁵ For example [redacted]

[redacted] told [redacted] that he personally was opposed to the election of enterprise managers—a key provision of the new Law on State Enterprises, which was to be approved at the plenum. According to [redacted] Ligachev also was resisting certain aspects of that law and had unsuccessfully opposed Gorbachev’s proposal to publish it in draft form for public discussion.⁶

A stronger source of opposition, however, may have been the central government bureaucracy, whose powers Gorbachev’s reforms were designed to circumscribe. [redacted] claimed that questions

¹ For example, one of these articles, by Tat’yana Zaslavskaya, proposed the total elimination of plan targets and centrally determined wage scales, while another, by Nikolay Shmelev, suggested that managers use the threat of unemployment to combat the laziness of Soviet workers. Shmelev’s article, which included several other “radical” ideas, reportedly was sanctioned by party secretary Yakovlev, Gorbachev’s point man on reform, and subsequently criticized as “harmful” by senior secretary Ligachev. When voting in the local soviet election shortly before the plenum, Gorbachev, in response to a question from the crowd, endorsed Shmelev’s analysis of Soviet economic problems but judiciously distanced himself from the recommendation about unemployment.

² The published Politburo agenda reveals only that these proposals were discussed at meetings held during the months of April and May.

³ See DI Intelligence Assessment SOV 87-1003, [redacted] May 1987, “Restructuring” the Soviet Workplace. The New State Enterprise Law.

⁴ See DI Intelligence Assessment SOV 87-10021X [redacted]

⁵ April 1987, *The January Plenum: Gorbachev Draws the Battlelines*.

⁶ By late February, Gorbachev was describing the preparation of these plenum proposals as “an enormous job, enormous!”

⁷ Anchishkin, the 54-year-old director of the Institute of Economics and Forecasting of Scientific and Technical Progress, apparently was literally worked to death. He died the day before the plenum began—according to [redacted] from a heart attack suffered while putting the finishing touches on plenum materials.

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relating to the restructuring of the State Planning Committee (Gosplan) and State Committee for Material and Technical Supply (Gosstsb) were especially contentious. Several [redacted] also indicated that Gosplan Chairman Talyzin was taking a conservative position with regard to the pace of reform—in part, according [redacted] because a trip he made to Beijing had convinced him that many of China's problems had resulted from its attempt to implement reforms too rapidly. At the plenum, Gorbachev apparently criticized Talyzin and several other high officials by name for errors that contributed to the Soviet economy's poor performance in the first quarter of 1987.⁷

Continuing conflict over the reform proposals apparently was responsible for a postponement of the plenum, which [redacted] said was originally to be held in early June.⁸ In an effort to put more pressure on the opposition, Gorbachev convened a highly unusual preplenum conference on 8 June, with a list of speakers heavily stacked in favor of reform-minded enterprise managers and economists, rather than central government or party officials. In his concluding remarks, he reported that the discussion had supported the Politburo's belief that the central organs' powers would have to be cut if the new Law on State Enterprises was to work and that the participants' remarks would be reflected in his report to the plenum. In this way, Gorbachev ensured that the views of these reform-minded speakers, most of whom were not members of the more conservative Central Committee, could be used to support his proposals at the plenum.

Gorbachev's Political Victory

Conflict over these proposals evidently continued at the plenum itself, when it finally was convened on 25 June. Aganbegyan described the speeches given

there as "emotionally charged," and Georgiy Arbatov, director of the Institute of the USA and Canada, told [redacted] that "emotional outbursts" by dissenters pervaded the proceedings. When the smoke had finally cleared, however, the decisions endorsed by the plenum and a subsequent Supreme Soviet session had to be counted as a major breakthrough in Gorbachev's effort to consolidate his power and "restructure" the Soviet economy.

Leadership Changes

The plenum approved leadership changes that will strengthen Gorbachev's ability to move ahead with his reform agenda. Party secretaries Aleksandr Yakovlev, Nikolay Slyun'kov, and Viktor Nikonov were promoted to full Politburo membership. Sergey Sokolov, who had been fired as Defense Minister after the Cessna incident in May, was removed from the Politburo, and his successor, Dmitriy Yazov, was elected a candidate Politburo member. In addition, former Politburo member and Kazakh party chief Dinmukhamed Kunayev, a member of the old guard who was accused of "serious shortcomings" in his leadership of the republic, was removed from the Central Committee—a sign that he may soon face criminal prosecution.

The increase in the number of senior secretaries—members of the Secretariat who hold full membership in the Politburo—dilutes the influence of "Second Secretary" Yegor Ligachev, who has been acting as a spokesman for more conservative party officials. Of all the promotions, Yakovlev's probably benefits Gorbachev the most and will have the greatest impact on Ligachev's authority. Yakovlev, the leadership's most outspoken advocate of far-reaching reform, may eventually supplant Ligachev as the senior secretary for ideology, although the two seem to be sharing that responsibility for now. The two leaders' differing viewpoints were recently illustrated when Ligachev made a speech that was highly critical of those he accused of taking Gorbachev's *glasnost* (openness)

⁷ Talyzin heads the Commission for Improving Management, Planning, and the Economic Mechanism under the USSR Council of Ministers.

⁸ To avoid the fate of the January plenum, which apparently was delayed for several months because of policy differences within the leadership, Gorbachev had announced that the plenum on reform would be held in June—the first time a date had been publicly set for a plenum since the Khrushchev era.

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policy too far and Yakovlev later criticized unnamed persons for attempting to put limits on that openness.*

The promotion of Slyun'kov also should strengthen the hand of reformers on the Politburo. Slyun'kov has been associated with Ryzhkov, with whom he once served on the State Planning Committee. []

[] indicates that Ryzhkov is somewhat more cautious than Gorbachev about the pace of change. Whether or not Slyun'kov is also urging a measured approach, he clearly advocates moving forward with the reform agenda. []

[] recently described Slyun'kov as a "progressive" member of the leadership and credited him with breaking a logjam on an important reform document that was eventually approved at the plenum. As head of the Central Committee's Economics Department, he served as a principal speaker at the preplenum conference on reform and probably will be responsible for overseeing implementation of the reform measures approved at the plenum.

Nikonov's promotion to full Politburo membership, leapfrogging candidate status, makes him the party's

* Ligachev's concerns are no doubt shared by many party officials who are hesitant about reform and fearful that media criticism may weaken the prestige of the party. According to []

[] Gorbachev has attempted to address those concerns by appointing Yakovlev to head a new commission charged with maintaining the momentum of the reform process while ensuring that it remains under control.

senior secretary for agriculture—another of Ligachev's former responsibilities. Although he has been more of a follower than a leader on reform issues in the past, Nikonov has been a firm supporter of Gorbachev's agricultural program and has now been entrusted with overseeing his agricultural reforms. He has ties to both Gorbachev and Ligachev. Nikonov was the Russian Republic's Minister of Agriculture during Gorbachev's tenure as party secretary for agriculture and advanced to the Secretariat shortly after Gorbachev became General Secretary. As junior secretary for agriculture, however, he worked under Ligachev's supervision.

Yazov's unusually rapid elevation from candidate member of the Central Committee to candidate member of the Politburo (the same party position held by his predecessor) gives the new Defense Minister the political clout he needs to bring Gorbachev's "restructuring" effort to the defense establishment—an effort Gorbachev said was necessary in the wake of the "poor performance" demonstrated by the military in the Cessna incident. Yazov clearly is beholden to Gorbachev for his new position and in the near term, at least, is likely to support the changes he wants.

Taken together, these leadership changes enhance Gorbachev's already strong position in the Secretariat, six of whose members hold seats on the 14-member Politburo. With a core of close allies within the

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Table 1
Politburo Members After the Plenum, June 1987

	Age	Current Post	Position on Reform
Mikhail Gorbachev	56	General Secretary	Driving force.
Geydar Aliyev	64	First Deputy Premier	Not in the forefront of reform supporters; reportedly has taken conservative position on some issues.
Viktor Cebrikov	64	Chairman, KGB	Unclear. Some reporting suggests some concern on his part that reform could create internal security problems.
Andrey Gromyko	77	Chairman, Presidium of Supreme Soviet (President)	Going along with reform, at least publicly. Reportedly has reservations about <i>glasnost</i> , complaining that media treatment of Soviet problems has been excessively negative.
Yegor Ligachev	66	Party secretary for ideology, cadres	Leading spokesman for conservative party officials; chief proponent of crackdown on "unearned income"; thinks <i>glasnost</i> has gone too far and threatens to erode the party's authority; has warned about dangers of decentralization.
Viktor Nikonov	58	Party secretary for agriculture	Although originally somewhat reticent, has become increasingly vocal supporter of family contracts and other reform measures; now entrusted with overseeing implementation of Gorbachev's agricultural reforms.
Nikolay Ryzhkov	57	Chairman, Council of Ministers (Premier)	Strong supporter of Gorbachev's reform proposals, but reportedly has cautioned against undue haste in implementing them.
Vladimir Shcherbitskiy	69	Ukrainian party chief	One of the last remaining Old Guard leaders; his recent enthusiasm about reform appears to be motivated more by political expediency than conviction.
Eduard Shevardnadze	59	Foreign Minister	A Gorbachev ally who pushed numerous economic experiments during his tenure in Georgia.
Nikolay Shtyn'kov	58	Party secretary for economics	Vigorous proponent of Gorbachev's key initiatives, including democratization, <i>glasnost</i> , and individual labor.
Mikhail Solomentsev	73	Chairman, Party Control Committee	Sides with Gorbachev on most reform issues.
Vitaliy Vorotnikov	61	Premier, Russian Republic	Has maintained a low profile on controversial issues; probably more comfortable in Ligachev's camp than Gorbachev's.
Aleksandr Yakovlev	63	Party secretary for ideology, propaganda, culture	Leadership's most outspoken proponent of <i>glasnost</i> , "democratization" and "new thinking" in ideology; reportedly handpicked by Gorbachev.
Lev Zaykov	64	Party secretary for defense industry, general economy	Owes his position to Gorbachev and has been a strong proponent of his reforms.

Politburo, he can be reasonably sure of a working majority on most issues (see table 1). Still, he does not have carte blanche and cannot dominate the Politburo as he does the Secretariat. The Politburo still includes members whose loyalty to Gorbachev is questionable

as well as several members of the Old Guard, such as President Gromyko, Ukrainian party chief Shcherbitskiy, and First Deputy Premier Aliyev

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A Green Light for the Party Conference

The plenum gave Gorbachev another victory, however, when it approved his proposal to convene an all-union party conference on 28 June 1988. Gorbachev had proposed holding such a conference—the first since 1941—at the previous plenum in January, but the proposal apparently was controversial and failed to win explicit endorsement in the concluding resolution.

This time, however, Gorbachev asked for and received the Central Committee's endorsement of a broad agenda for the conference, which he said should include a review of:

- The implementation of the 27th Party Congress's decisions on revitalizing the party and improving economic performance.
- The results of the first half of the 12th Five-Year Plan.
- The role party organizations should play in deepening the process of restructuring.
- Measures to further democratize the party and society.

Gorbachev may hope to use the conference to make changes in party election rules that would force officials to compete for their positions in secret-ballot, multicandidate elections. Several Soviet officials have indicated that the conference will revise election procedures—including those for membership in the Central Committee, Secretariat, and Politburo—in time to govern the party elections scheduled to follow the conference. Although party rules are unclear about the conference's authority, past conferences—in 1921, 1922, and 1929, for example—have adopted new party rules, approved major policy changes, and sanctioned purges of the party membership.

The conference may also give Gorbachev an opportunity to replace "lameduck" Central Committee members—the more than 10 percent who have lost the positions that made them eligible for Central Committee membership when they were elected at the 27th Party Congress—with those more amenable to his reform policies. Under the rules approved at the June plenum, the delegates chosen by secret ballot elections next spring will total about 5,000—an unwieldy number that suggests the conference will be rubberstamping rather than debating Gorbachev's

proposals. This should enable him to win approval of important policy decisions that otherwise would have to await the next party congress in 1991.

The Economic Reform Agenda

One of Gorbachev's most important achievements at the plenum was the approval of a statement outlining the "main provisions" of his "new economic mechanism" and establishing a deadline for its implementation. With the adoption of these "main provisions," he replaces his piecemeal approach to reform with a comprehensive program whose main elements are to be in place by the beginning of the 13th Five-Year Plan in 1991. At Gorbachev's urging, the plenum also approved "in the main" 11 draft decrees detailing these reforms and returned them to the Politburo and Council of Ministers for release by the end of the year (see inset "The Eleven Decrees").

At the Supreme Soviet session that followed the plenum, three new laws were enacted. The first of these—a new Law on State Enterprises—had been debated and approved by the plenum after an extensive public discussion of the draft.⁸ Gorbachev had instigated that discussion in hopes of strengthening the law, which is designed to increase the decision-making authority of the enterprise, but that effort was only a partial success (see inset "Changes in the Law on State Enterprises"). The Supreme Soviet also enacted other laws calling for public discussion of important issues (such as the state enterprise law) and giving citizens the right to sue officials who infringe upon their rights (see inset "New Laws on Citizens' Rights," page 8).

The Emerging Strategy

Although most of the implementing documents are not yet available for analysis, the public record of the plenum and Supreme Soviet session—including the speeches made by Gorbachev and Premier Ryzhkov,

⁸ According to the Soviet press, more than 140,000 comments and proposed amendments of the law were received. The proposed revisions were reviewed by a commission headed by Premier Ryzhkov.

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The 11 Decrees

The 11 decrees approved by the plenum were described by Gorbachev's economic adviser, Abel Aganbegyan, as covering reforms in: (1) the planning system and State Planning Committee, (2) the pricing system, (3) financial policy, (4) the banking and credit systems, (5) the supply system, (6) statistics, (7) "labor and social systems," (8) reorganization of S&T organizations, (9) the sectoral ministries, (10) local soviets, and (11) "government activities." These decrees apparently were discussed by the Politburo before becoming the basis for debate at the preplenum conference. The plenum approved the decrees "in the main" and returned them to the Council of Ministers and the Politburo, with instructions to amend them to take account of discussions at the plenum. The Politburo recently approved the amended decrees, but as of this writing, the texts are not yet available for analysis.

the approved statement on the "main provisions" of reform, and the new Law on State Enterprises—is sufficient to permit some preliminary judgments about the main elements of Gorbachev's strategy for economic reform. If the implementing decrees substantially modify these parameters, of course, another assessment will be required.

Decentralization of Authority

Gorbachev had portrayed the reorganization of central management organs as one of the main issues on the plenum's agenda, contending that the new Law on State Enterprises could not go into operation "unless we solve the questions of management from the center." Enterprises could not be expected to exercise more decisionmaking authority, he argued, until the central bodies were reorganized and their functions redefined.

As a result of decisions taken at the plenum and Supreme Soviet session, Gosplan is now to be "relieved of current economic issues" and concentrate

instead on "strategic" planning and investment policy." Similarly, the economic ministries are no longer to engage in day-to-day control of the enterprises but are to become the "scientific, planning, and economic headquarters" of their respective sectors. To help ensure this transformation, administrative staffs are to be sharply reduced and subdivisions responsible for overseeing enterprise production are to be eliminated. Although no official target figures for these personnel reductions have been cited, a lecturer at the Leningrad Higher Party School recently told his audience that ministry staffs are to be reduced by two-thirds."

Although the "main provisions" make no reference to a reduction in the number of ministries, both Gorbachev and Ryzhkov indicated that there had been proposals to do so. Western media, quoting Soviet sources, have reported that Gorbachev intends to reduce the number of ministries and state committees from the present 80 to roughly 20."

One reason for such caution may be the continuing problems with Gorbachev's earlier reorganizations, which involved the merger of related ministries and the creation of new coordinating bodies. The dust is only now beginning to settle from the agro-industrial reorganization that began in April 1985. The new

"The sharpest public criticism of Gosplan to date appeared in the June issue of *Novyy Mir*. Economist Nikolay Shmelev wrote: "It is frivolous to think that without the control of Gosplan, an aircraft plant will suddenly, for no particular reason, go over to the production of baby carriages. Yet that is what Gosplan is engaged in today: watching with the utmost vigilance to ensure that shoe makers stitch shoes and pastry cooks bake pies. For all our hypercentralization, the strategic role of the center is basically negligible, for the simple reason that the center has no time for strategy."

"Sociologist Tat'yana Zaslavskaya recently reported that 15-18 million people are currently employed as administrators of the Soviet economy

"The beginning of this process was heralded by a 20 July TASS announcement that four machine-building ministries had been reduced to two. The Ministry of Machine Building for Animal Husbandry and Fodder Production was absorbed by the Ministry of Tractor and Agricultural Machine Building, and a new Ministry of Heavy, Power, and Transport Machine Building was formed from a merger of the Ministries of Heavy and Transport Machine Building and Power Machine Building

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Changes in the Law on State Enterprises

A comparison of the draft Law on State Enterprises with the final version approved by the Supreme Soviet reveals that Gorbachev's effort to use a public debate of the draft to give it more teeth was only a modest success. Although the final version contains some important new elements, such as the elimination of ceilings on individual earnings, many of the draft's contradictions remain.

Comments by Gorbachev and his adviser, Abel Aganbegyan, suggest that considerable compromise was necessary to win passage of the law. Gorbachev told the preplenum conference on reform that the revised law was "not ideal," but that it should be passed and later amended as its weaknesses become apparent. Aganbegyan said that he did not agree with all of the law's provisions but that its adoption was preferable to "six more months of debate."

Protection of Enterprise Rights. As in the original draft, the ministries are still called upon to "monitor" enterprise activities. A new article specifies, however, that central organs are to conduct themselves in strict accordance with the law and that any implementing documents must be in compliance with it. Other new provisions state that the observance of enterprise rights is "guaranteed" by the state and broaden the draft's original definition of ministry offenses for which enterprises may seek reimbursement.

Self-Management. Despite calls for dropping it, the provision that elected managers must be "confirmed" by superior organs remains. There is still no explanation of how candidates for management positions are to be selected, and elections of managers are still to be by "open or secret" ballot, despite published protestations that ballots must be secret if elections are to be democratic. Revisions in the original language give managers the right to sit on the "labor collective council," even though many workers had suggested that they be excluded

Planning. Unlike the draft, the final version includes a detailed description of how plans are to be formulated. It specifies that control figures supplied by central organs are not to be "directive" and must give the enterprise "broad scope for making decisions and choosing partners when concluding contracts."

Wages. The law contains new provisions that eliminate wage ceilings on individual earnings and appear to give the enterprise greater flexibility with regard to working hours. Normatives for enterprise wage funds, however, are still established by central authorities.

Prices. A new provision affirms the enterprise's right to independently set prices for any production, consumer goods, and services that are not centrally set and proclaims that "the use of contractual and independently set prices will expand."

Supply. Although the law specifies that "wholesale trade" is to become the main form of supply, it also suggests that the "broad scope" enterprises are to be allowed in choosing their suppliers may, in fact, be somewhat limited. For example, one of the new provisions states that, at an enterprise's request, Gosstab or the enterprise's ministry can "assign it another supplier."

* In a recent issue of Moscow News, commentator Aleksandr Bovin was critical of the way the draft law was handled, questioning why it was released for public discussion if the proposed revisions were not to be adopted. "Why approve the law," he asked, "if it will have to be amended later?"

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New Laws on Citizens' Rights

Two new laws enacted by the Supreme Soviet—one that calls for the public discussion of important issues and another that protects citizens from officials who abuse their rights—seem designed to increase grassroots support for Gorbachev's economic and social reforms and step up the pressure against bureaucrats who fail to implement them

The law on public discussion apparently is designed to increase public involvement in reform issues while maintaining control over the level and forms of that involvement. National issues, such as the new Law on State Enterprises, are to be publicly discussed only when authorized by the Supreme Soviet. The law apparently will be more widely invoked at the local level, where the leadership believes a number of issues—such as the building of hospitals and schools, erection of monuments, and naming of streets—can be most effectively resolved. The law may also be intended to ensure that an emerging grassroots activism, which already has resulted in some unsanctioned demonstrations, will be channeled in approved directions.

The law on citizens' rights will afford a degree of protection to those who blow the whistle on official malfeasance. To keep this whistle-blowing within bounds, however, the law stipulates that citizens may file suits against officials only after all other administrative remedies have been exhausted and that they may not file them against "collegial organs." The law also exempts from such suits any actions involving the safeguarding of the country's defense capability and state security.

Machine Building Bureau, created in October of that year, is still having serious coordination problems, judging from the comments of Gorbachev and Ryzhkov. The "main provisions" shed little light on how the problems in these new organizations are to be addressed, calling only for an "improvement" in their work.

Ryzhkov proposed that a number of "union-republic" ministries be converted to "all-union" status—a step that would reduce the size of the bureaucracy by eliminating the republic-level counterparts of the affected ministries.⁴ He also joined Gorbachev in calling for the formation of "state production associations"—amalgams of independent enterprises, production associations, and transport and marketing organizations—as a way of reducing the number of production units Moscow must administer.⁵

By reducing the size of the government bureaucracy, Gorbachev apparently intends to reduce its ability to meddle in the affairs of subordinate enterprises.⁶ One potentially fatal flaw, however, is the failure—at least in the documents released thus far—to relieve the ministries of their responsibility for enterprise performance. The new state enterprise law continues to hold the ministries responsible for "monitoring" enterprise production, and even Gorbachev, in his speech to the Central Committee, said the ministries would be accountable for the level of production. As Aleksandr Levikov, the economics editor of *Literaturnaya gazeta*, remarked in a recent article, it is "illogical" to ask ministries to take a hands-off attitude toward subordinate enterprises while continuing to hold them accountable for enterprise performance.

⁴ Ryzhkov proposed that the following ministries be converted from union-republic to all-union status: power and electrification, coal industry, ferrous metallurgy, nonferrous metallurgy, geology, and petroleum refining and petrochemical industry.
⁵ Production associations—organizations designed to coordinate the activities of related enterprises under a single management organ—have been officially designated as the economy's "basic self-financing units." The formation of even larger organizations that would incorporate these production associations appears to represent a step toward the "gigantism" that many Soviet economists have decried. Gorbachev called for the creation of "several thousand" of these "state" production associations which would be managed from the center, in place of the 37,000 industrial enterprises he said are currently included in the state plan. In addition to these state production associations, there would be "tens of thousands" of medium and small enterprises, under republic and local jurisdiction, to serve the major associations and local market. (C.N.F.)
⁶ Aleksandr Iyevlev, First Deputy Chairman of the State Agro-industrial Committee, recently told an interviewer that reorganization of the agro-industrial sector reduced the number of administrative personnel by more than 100,000.

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Table 2
Changes Outlined at Plenum and Supreme Soviet Session

Key Issues	Outlined Changes	Potential Problems
Central management	Economic ministries and state committees will be reduced in size and number. They will concentrate on strategic, long-term issues rather than day-to-day management of enterprises.	As long as ministries continue to be held responsible for sectoral output, it will be difficult for them to refrain from interfering in enterprise decisionmaking. According to the new Law on State Enterprises, they are still to "monitor" enterprise performance—a function that in the past has led to micromanagement.
Planning	Enterprises will produce a portion of their output in compliance with mandatory state orders and will be given greater latitude in determining the remainder. The state will no longer approve annual plans, and the five-year plans will become the "main" production blueprint.	Enterprise autonomy in production decisions will depend on the proportion of output procured by the state and the degree of freedom allowed in selecting suppliers and setting prices.
Prices	The system will be changed so that output with centrally fixed prices will be greatly reduced and include only the most important products. Enterprises will receive expanded rights to set contractual prices with customers. Unjustified state subsidies will be reduced.	The move to a more rational price system could be frustrated by the retention of centralized prices for key commodities, limited flexibility to respond to changing market conditions, and reluctance to take measures to avert inflationary pressures and to eliminate subsidies for consumer staples.
Supply	Only "scarce" producer goods will continue to be rationed by the state. Other supplies will be distributed through a wholesale trade system that will allow free purchase and sale under direct contracts between providers and users.	Effectiveness will depend on the length of the list of "scarce" producer goods, the ability of enterprises to choose their suppliers freely, and the balance in the market for producer goods.
Finance and credit	Enterprises will bear full economic responsibility for the results of their activity. Investment will be financed less through budget allocations and more through bank credits.	Success will depend on the enterprise's ability to obtain investment capital and earn profits to be self-supporting. It is unclear to what extent enterprise losses will continue to be covered by the state or unprofitable firms closed.

Planning

Under the new guidelines, enterprises are to independently formulate and ratify their own five-year plans and set their own targets for each year of the five-year plan. (Annual plans will no longer require approval by the state.) This is intended to eliminate the notorious practice of "planning from the achieved level," which in the past has caused enterprises to intentionally underproduce to avoid receiving higher targets the following year. To ensure that the state's requirements are met, enterprises will continue to receive

"control figures," but these are to serve only as guidelines and are not to be used to assess enterprise performance."

Enterprises also will receive a certain percentage of mandatory "state orders." According to Aganbegyan, these will initially constitute 50 to 60 percent of the

"The list of control figures, specifying value of output, profit, foreign currency receipts, "major indicators of scientific and technical progress and social development," is to be established by the USSR Council of Ministers.

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total industrial output but will gradually drop to 25 to 30 percent by the 1990s. The remaining part of an enterprise's product list is to be drawn up by the enterprise itself on the basis of direct links with consumers—a process that supposedly will require the enterprise to conduct its own market research and, in Premier Ryzhkov's words, "woo the consumer" in order to remain competitive with other enterprises.

The effectiveness of these measures will depend in large part on the proportion of output procured by the state and by the number and rigidity of the control figures handed down to the enterprise. In his speech to the Central Committee, Gorbachev alluded to fears being expressed by "many" that the enterprises' increased autonomy in determining output targets will result in a temporary decline in growth. His response was that "society gains nothing" from higher growth figures achieved "by cranking up gross volumes. . . without a real increase in end results." "That remark, combined with similar comments made by other Soviet officials in recent months (see inset "The Sacred Cow"), suggests a possible reassessment of the traditional reliance on the growth rate as the principal measure of the economy's performance. Without such a reassessment, the state clearly will be reluctant to reduce the percentage of state orders, control figures, and other devices that enable it to regulate enterprise production.

Prices

Unlike previous reforms, this one is to encompass all forms of prices—wholesale, procurement, and retail prices and rates, with changes in the various sets of prices to be interconnected. Although prices for the most important products will continue to be set centrally, the number of prices that can be fixed by the enterprises on their own or by contractual agreement with their customers is to be substantially increased.¹⁰ No figures have been released on the dimensions of that increase, but Leonid Abalkin, head of the Academy of Sciences' Institute of Economics,

¹⁰ Gorbachev also suggested that the Central Statistical Administration, which was upgraded to a state committee in July, shift its focus to qualitative measures of economic performance.
¹¹ The State Committee for Prices now approves about 200,000 prices annually.

told a *Der Spiegel* interviewer in July that *most* prices would now be set by the enterprises themselves. Soviet economists have long argued that such a reform is essential if enterprises are to operate on a truly "self-financing" basis. As Gorbachev explained in his plenum speech: "Anyone who produces output whose prices are unjustifiably low has no incentive to increase production, and anyone who makes surplus profits as a result of overly high prices has no incentive to reduce expenditures and improve efficiency."

This greater independence in setting prices has its limits, however. All prices must be fixed on the basis of "socially necessary expenses of production and sale, utility, quality, and effective demand," and are to be closely monitored by state organs, presumably the State Committee for Prices.

The new pricing system also is to reduce the state subsidies of consumer prices, which Gorbachev said now exceed 73 billion rubles a year. Although the details have not yet been released, subsidies apparently are to be reduced for some foods and rent, as well as for raw materials and fuels.¹² Some economists have charged that a reduction of these subsidies amounts to an abrogation of the "social contract" that guarantees Soviet citizens full employment, low-cost food and housing, and other benefits of socialism. Others counter, however, that the gains and losses will balance out if prices are set at realistic levels. Economist Nikolay Shmelev recently asked: "Why pay too little for meat and at the same time pay too much for textiles and footwear, rather than buying both at realistic prices?"

¹² Senior Secretary Lev Zaykov provided some insight into the decision to adopt a comprehensive price reform in a speech he delivered in Czechoslovakia in March 1987: "Previously we mined our coal on the surface, now we go very deep: it is continually more difficult, and expenses are growing, so production is not profitable. Naturally, we can change the wholesale prices. But look at the consequences all this would have. We increase the wholesale cost of coal, and immediately the cost of metal will rise. . . . And when we studied this question as a whole, then we decided that the whole price system must be revised."

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The Sacred Cow

We must take a look at some "sacred cows" and not be afraid to deal with them as they deserve. One of these sacred cows is the growth rate. Why should we turn this indicator into a sacred cow? We produce twice as much steel as the Americans. We produce more machine tools, more cement, more footwear. We have four times as many cows. What we need now is not just speedy growth. . . . What we are often getting now is a hollow growth rate of the kind needed only by people who do not want to lose their bonuses.

- Georgiy Arbatov, Director of the Institute of the USA and Canada, at the preplenum conference

Resistance to price reform, which has long been one of the most divisive of all the reform issues, apparently began to crumble last year, when one of its most vehement foes, Nikolay Glushkov, was removed from the chairmanship of the State Committee for Prices. Aganbegyan told an interviewer in July that the views of Glushkov's successor, Valentin Pavlov, are "identical" with his own. The opposition to price reform was not crushed with Glushkov's removal; however. Only a few days before the plenum, economist Natal'ya Vladova published an article calling for the total elimination of contractual prices, which she said inevitably lead to an inflationary spiral. Continuing sensitivity to this issue is also evident in the new state enterprise law, which specifies that any "unjustified profits" earned through "breaches of state price discipline" are liable to appropriation and that any enterprise earning such profits must pay a fine equivalent to the profit.

Supply

Under the guidelines approved by the Central Committee and Supreme Soviet, only "scarce" producer goods are to continue being rationed by the state. Other supplies are to be distributed through a "wholesale trade" system that will allow free purchase and

sale under direct contracts between providers and users. Soviet reformers hope this decentralized system will discourage enterprises from hoarding supplies—a practice that has become commonplace because of the slowness and unreliability of the current system and, in the words of Gorbachev and Ryzhkov, "immobilized" billions of rubles of stock."

Although the intent of this reform seems clear enough, the vagueness of language in the "main provisions" suggests that considerable compromise was required, lending credibility to reports that questions about the distribution and allocation of supplies were major bones of contention prior to the plenum. Gorbachev himself indicated that there was considerable foot-dragging on the question of the timetable for implementing wholesale trade.²¹ Unlike other reform measures, which are to be implemented by the beginning of the 13th Five-Year Plan (1991-95), the transition to wholesale trade is to be completed "within four to five years."²² The critical question of how free an enterprise will be to select its own suppliers also remains unclear. Ryzhkov emphasized the importance of this issue in his speech when he said it was important to introduce "real" wholesale trade that would allow the "possibility of choosing your business partner." Although the main provisions endorse that

²¹ Aganbegyan told an *Izvestiya* interviewer in January 1987 that the cost of stocks being held by economic facilities exceeded 460 billion rubles.

²² Gorbachev said: "The following question arose at the (preplenum) conference: Is it possible to introduce wholesale trade when there is a shortage of resources? This argument is always put forward when the problem of the timetable for switching to wholesale trade is being discussed. The participants in the conference cogently said that the system of supply itself creates shortages. The more rapidly we switch to wholesale trade, the more rapidly we will be rid of shortages and of excessive stocks." Judging from that remark, it may have been Gorbachev who was responsible for deleting a passage in the draft Law on State Enterprises that made the introduction of wholesale trade dependent on the gradual elimination of shortages.

²³ A remark made by a Gosplan research institute official: "Only a few days before the plenum suggests that Gosstab may have been pushing for an even longer timeframe for the implementation of wholesale trade. Gosstab would be converted to wholesale trade, he said, "within five to seven years." At a Council of Ministers session on 17 July, however, Gosstab was instructed to increase the proportion of wholesale trade to 60 percent of the total volume of its output sales by 1990 and to complete the switch by 1992.

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general idea, no reference is made to the selection of suppliers in the section outlining wholesale trade procedures, and there is no reference to the free selection of suppliers in the new Law on State Enterprises.

Finance and Credit

Under the new conditions of "self-financing," enterprises are to bear full economic responsibility for their actions. Because of this, the reforms call for investment to be financed more through bank credits, with the share of budget allocations to be cut. (C NF)

To make it easier for enterprises to obtain loans for construction and other investment purposes, the banking system is to be reorganized on a sectoral basis, taking into account the particular needs of the various sectors.²⁴ Loans to prop up enterprises that operate at a loss, however, are to be discouraged. Ryzhkov complained that 13 percent of all industrial enterprises fell into this category in 1986 and that many of them had become parasites, repeatedly taking out loans to cover their losses and then failing to repay them. Under the conditions of self-financing, losses are to be eliminated through retooling, strengthened discipline, and improvements in the organization of production and labor. If, after repeated efforts, the enterprise continues to operate at a loss, it supposedly will be declared bankrupt and dissolved.²⁵

Under these new conditions, an enterprise's success will depend on its ability to obtain investment capital and to earn enough profit to be self-supporting. It remains to be seen whether the state will actually refrain from covering enterprise losses and allow

²⁴ According to Ryzhkov, the new system will consist of the State Bank (Gosbank), which is described as the "main organizer of the monetary and credit system," and five specialized banks—the Bank for Foreign Economic Activity; the Industrial Construction Bank; the Agro-Industrial Bank; the Bank for Housing, Municipal Services, and Social Development; and the Bank for Labor Savings and Credit to the Population.

²⁵ Financial and credit mechanisms also are to be utilized to improve foreign trade and economic relations. For example, the ruble is to be made freely convertible to other currencies on a step-by-step basis. This evidently will be a lengthy process, however. Economist Leonid Abalkin recently told an interviewer that convertibility would be introduced in trade with Eastern Europe but that the ruble probably would not be freely converted into marks or dollars for "15 years."

unprofitable firms to go bankrupt. (Thus far, only one enterprise, a Leningrad construction trust, has been openly declared bankrupt and shut down.) The new state enterprise law specifies only that enterprise activities "may" be terminated if an enterprise has a "long record of losses" and all measures to correct the situation have failed.²⁶

Much will also depend on the effectiveness of the price reform. Soviet economists recognize that some enterprises whose products have been assigned artificially low prices must operate at a loss through no fault of their own. And even when poor management is to blame, Soviet officials will be reluctant to incur the costs—dislocations of labor and disruptions of supply and distribution plans—of shutting down enterprises that fail to make a profit.

Prospects

Lessons Learned

Compared with the ill-fated reform of 1965, Gorbachev's effort appears to have some distinct advantages (see inset "The 1965 Reform"). Both Gorbachev and Ryzhkov have referred to the lessons of 1965 and emphasized the need for a more comprehensive reform whose implementation will be more closely monitored. As Ryzhkov said in his Supreme Soviet speech:

There must be no repetition of the unfortunate experience of the 1965 reform, when tardy action and half-measures reduced the effectiveness of the new management mechanism to naught. The forces of inertia and stagnation prevailed, and there was a reversion to the old ways, perhaps in their worst form. There is only one conclusion to be drawn from this—it is necessary to struggle for the new, struggle to the end.

²⁶ The new Law on State Enterprises specifies that workers at plants that are shut down are to be given two months' notice and that they will continue to receive their wages (for up to three months) while seeking new employment.

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The 1965 Reform

As spelled out by then Premier Aleksey Kosygin, the 1965 reform consisted of: an administrative reorganization of the bureaucracy; some decentralization of planning and decisionmaking functions from the ministries to the enterprises; a change in success criteria for enterprises; a revision of wholesale prices; and a reform of the industrial supply system.

Because the ministries continued to be held responsible for the performance of subordinate enterprises, they continued to exercise "petty tutelage" and effectively nullified much of the new freedom of the enterprises. Some of the proposed measures were never implemented or were encumbered with so many regulations that their original intent was subverted.

The reform also was undermined by the central authorities' efforts to ensure that enterprise actions were compatible with traditional economic and ideological objectives. For example, the freedom of enterprise managers to determine average wages and to use incentive funds as they saw fit was curtailed by subsequent decrees issued when Moscow became concerned that wage outlays were growing faster than productivity and that white-collar workers were benefiting disproportionately from bonus payments.

Implementation of the reform also suffered from a lack of strong leadership backing. Its initiator, Kosygin, became increasingly overshadowed by Brezhnev, who lacked Kosygin's commitment to reform. The climate for a decentralization of economic decision making became even less favorable after the Czechoslovak "spring" of 1968, which underscored the political risks of reform.

Recognizing the importance of implementation, Gorbachev told the Central Committee that the Politburo and Secretariat had erred in the past but were now regularly examining the implementation of decisions.

Also working in Gorbachev's favor is a political atmosphere markedly different from that of 1965. Recognition of the severity of Soviet economic problems and the breadth of the technology gap has now grown to the point that the leadership and most other elements of Soviet society seem to agree that the risks of reform are preferable to the status quo. As Gorbachev told the plenum, "We are not insured against mistakes . . . yet I am convinced that the greatest mistake is the fear of making a mistake." According to Gorbachev's adviser, Aganbegyan, told the plenum that there was "no choice" but to reform the economy because "nothing could be worse than the present situation."

The Soviet leadership also seems to have learned from the reform experience of other socialist countries. Thus, while many features of the current Soviet reforms seem to have been adapted from that experience, negative lessons also appear to have been drawn. For example, Gorbachev's announced decision to introduce price reforms gradually and only after extensive public discussion probably was based at least partially on lessons learned in Poland, where the sudden imposition of price hikes provoked popular unrest.

Potential Problems

The plenum strengthened Gorbachev's hand to pursue his reform agenda, but his success is still far from assured. Although some lessons clearly were learned from the failures of 1965, others apparently were not. Like the 1965 reform, for example, the new reform measures continue to hold the ministries responsible for output—a function that in the past has led to interference in enterprise management. Nor is there any assurance that the reform will not be undermined, as it was in 1965, when enterprises begin to take actions the central authorities consider incompatible with national objectives.

Because these reforms are to be introduced in stages (see table 3), disruptions will be inevitable during the transition from the old system to the new. Gorbachev acknowledged in his plenum speech that this will create problems of "unusual complexity," but

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Table 3
Soviet Timetable for Economic Reforms

Reform	Deadline
Decrees to be issued on planning, pricing, supply, finance, credit, statistics, and reorganization of central organs	31 December 1987
New Law on State Enterprises to become effective	1 January 1988
State enterprises to switch to "full self-financing"	1988-89
Wholesale trade to account for 60 percent of output sales	1990
Price reforms to be implemented	31 December 1990
All reforms except wholesale trade to be completed	31 December 1990
Gossnab to complete the switch to wholesale trade	1992

it is not clear whether he and his Politburo colleagues have really come to grips with the possibility of major disruptions in production. Although Gorbachev played down the importance of "growth" as traditionally defined, both he and Ryzhkov still felt compelled to warn the enterprises that restructuring must not deter them from fulfilling current five-year plan targets.

Gorbachev's effort to reorganize the central management organs also can be expected to encounter foot-dragging and maneuvering to subvert the intent of the reorganization. For example, the central ministries have responded to previous calls to eliminate departments by merely "changing the labels on the doors." *Izvestiya* recently complained that when certain ministries finally eliminated their "all-union industrial associations" in response to Gorbachev's order, most of the associations' staffs migrated to the ministries' "main administrations," where they continued to perform practically the same functions. As a result, the

Potential for Economic Disruption

The comprehensive nature and relatively short time frame for implementation of the proposed reforms raise the specter of at least short-term economic disruption. At various points in Soviet history, policy and planning changes that were made too rapidly had serious repercussions on economic growth. Khrushchev's shift to a regionally based system for managing the economy (the sovnarkhozy), for example, thoroughly souled up the flow of supplies to enterprises, and frequent reorganizations created discord within the bureaucracy and confusion and uncertainty for enterprises. His misguided policies contributed heavily to the decline in Soviet GNP growth from 7 percent per year during 1954-58, when he was at the pinnacle of power, to 3.7 percent per year during 1959-63.

The current reforms redefine responsibilities throughout the chain of command and revise the rules of the game for all players, which will necessarily cause imbalances in the flow of goods and materials:

- *Until the new supply arrangements are worked out, hoarding of supplies may look even more attractive than usual.*
- *Until the division of labor is firmly established in law, ministries will test the limits of their power to continue to direct the activities of subordinates, producing conflicting signals for the enterprise.*
- *As in the past, trial and error will play a large part in determining for enterprise managers and workers which "success indicators" yield the greatest gains.*
- *Labor turnover may increase dramatically as workers seek to move to the most profitable firms, which are most likely to be able to finance recent pay reforms.*
- *Inflationary pressures caused by the newly won freedom of the enterprise to set more prices independently may be difficult to control.*

To add to the confusion, part of the economy will be responding to the new set of success indicators while the remainder will be following the old rules until the reforms are finally in place in the 1990s.

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editorial concluded, "the notorious three-tier setup is being maintained even under the two-tier system."⁷

Ryzhkov's call for the elimination of the republic counterparts of key ministries may also increase resistance to reorganization at the republic level. (For example, Shcherbitskiy's Ukraine would seem to be a major political loser in the elimination of republic ministries of coal and ferrous metallurgy—a move that will reduce local influence over the administration of important industries in that republic.) The current emphasis on the need to expand the role of the regional planning and management organs may be intended to ease this blow, but proposals in this area thus far seem vague and lacking in substance.

In addition to the foot-dragging in the bureaucracy, Gorbachev's reforms may face increased popular resistance. The proposed price reforms, for example, are

⁷ Recognizing this tactic, Ryzhkov used his Supreme Soviet speech to call for the elimination of the ministries' main administrations as well.

likely to prove unpopular with most Soviet citizens who have not had to cope with any significant changes in the price of bread since 1954, meat and dairy products since 1962, and rent since 1928. A Leningrad lecturer recently told his audience that the price hikes clearly will lower "some people's" standard of living.

Added to all these potential problems is the strong possibility that the leadership coalition Gorbachev has succeeded in forming could become strained. Despite his claims of leadership unity on the "fundamental questions of restructuring," his effort to push his reform agenda further undoubtedly will prove controversial and may well produce fissures within his own group of supporters over the long term.

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