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USSR Review



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USSR Review

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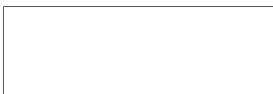
Soviet Approaches to Persian Gulf States 

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The Kremlin's efforts under General Secretary Gorbachev to enhance its relations with the Gulf Arab states are likely to bring some successes over the next few years, possibly even the establishment of diplomatic relations with Bahrain and the resumption of relations with Saudi Arabia. Moscow uses various methods including exchanges of Islamic delegations and visits by trade and cultural delegations to bridge gaps in its relationships with the Gulf states and to demonstrate that the USSR is both reasonable and reliable. The Soviets' ability, however, to translate their diplomatic gains into significant, lasting influence will continue to be limited by factors such as Moscow's courting of Iran and lingering Gulf Arab suspicions of Soviet intentions. 

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The Soviet Navy in the Mediterranean: Gorbachev's Actions Belie His Words 

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A decline in Soviet ship strength in the Mediterranean over the past two years would seem, on the surface, to underline the sincerity of General Secretary Gorbachev's Mediterranean proposal calling for a freeze on Soviet and United States naval forces in the Mediterranean. The proposal, however, appears to be little more than a repackaging of past Soviet gambits, and the decline in ship strength is best explained as a step to conserve resources. At the same time, Gorbachev has sought to gain greater access for the Soviet Navy's use of port facilities in Syria, Egypt, and Libya and is likely to cite negative US reaction to his recent proposal to justify this naval presence. 

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Mongolia: Winds of Change [Redacted] 27 25X1

The Soviets seem to be making a concerted effort to convince interested third parties that they are willing to loosen their grip on Mongolia. They have withdrawn part of their forces from Mongolia, encouraged Ulaanbaatar to improve ties to Beijing, and even allowed the Mongolians to establish relations with the United States, after having vetoed any movement in that direction in the past. We probably will see further moves in the next year or so—such as additional troop cuts in Mongolia, or the resumption of Sino-Mongolian party ties. We also expect the Soviets to intensify their pressure on Mongolia to put its economic house in order, thus encouraging the Batmonh regime to get on the *glasnost* and *perestroyka* bandwagon. [Redacted]

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[Redacted]

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Soviet Azerbaijan: "Youth Bulge" Sets Stage for Unrest [Redacted] 31 25X1

Rapid growth of Azerbaijan's young adult population has outstripped the republic's ability to provide jobs, housing, and educational opportunities. As a result, competition for economic opportunities has increased, exacerbating tensions between Azeris and the republic's principal ethnic minority, Armenians. This probably contributed to the recent unrest in the Caucasus that was sparked by the demand that the Nagorno-Karabakh Autonomous Oblast—which has a predominantly Armenian population—be taken from Azerbaijan's jurisdiction and reunited with Armenia. [Redacted]

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[Redacted]

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USSR: Sharply Higher Budget Deficits Threaten *Perestroika* [redacted] 37

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General Secretary Gorbachev acknowledged in his opening speech to the June party conference that the state budget has been in deficit for many years. We estimate the deficit has risen rapidly since Gorbachev came to power as government spending has surged while tax revenues have remained almost unchanged. Delay in bringing the deficit down could lead to inflation much worse than the Soviets have experienced in the postwar era. [redacted]

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***Perestroika* and the Prospect of Unemployment** [redacted] 43

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Factories and ministries are being told to reduce their staffs and "do more work with fewer workers," as part of Gorbachev's drive for industrial efficiency and more effective management. Although layoffs have not yet generated a significant increase in Soviet unemployment, some workers who have been released are having trouble finding new jobs, and the possibility of unemployment is producing anxiety in the work force. If Moscow presses the "labor-saving" campaign, some workers will have to accept less attractive jobs or move to less desirable regions, and others may fall into the ranks of the chronically unemployed. [redacted]

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The "State Orders" Debate Continues [redacted] 47

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Last month's debate in the Presidium of the Council of Ministers revealed sharp differences over Gorbachev's effort to reduce mandatory output targets for Soviet enterprises in the last two years of the current five-year plan. It also highlighted some of the larger problems engendered by the incremental implementation of his reforms. [redacted]

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Easing the Antialcohol Program: New Wine in Old Bottles 49 25X1

Recent reports indicate that the Soviets have begun to ease up on the antialcohol campaign introduced by Gorbachev in 1985. The regime evidently intends to allow small increases in production of vodka and somewhat larger increases in production of light alcoholic beverages. Light alcoholic beverages remain in short supply, however, because many former wineries and breweries are now producing other goods. The greatest surge may occur in vodka and liquor production where retooling has been slower. 25X1

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Viewpoint

The Soviet Party Conference in Gorbachev's Political Strategy

[Redacted] 59

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General Secretary Gorbachev conceived the 19th All-Union Party Conference as part of his plan to rearrange political power in the USSR, in which he would reduce the strength of the party apparatus and the economic ministries and shift the focus of policymaking authority away from the Politburo and into a new Presidential office that he planned to occupy. Despite his success in winning approval for a number of radical reforms, Gorbachev continues to be opposed by a strong faction headed by Yegor Ligachev, who enjoys support in the regional party apparatus. A clash between Gorbachev and this opposition faction could be clearly seen at the conference, but the two sides remain in a political standoff—Ligachev remains content to obstruct Gorbachev's programs, while Gorbachev apparently lacks the power to remove him. [Redacted]

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Articles

Measuring Gorbachev's Success at the Party Conference: A Comparison of the Theses, Opening Report, and Resolutions


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The six final party conference resolutions—on reforming the political system, deepening restructuring, fighting bureaucracy, interethnic relations, *glasnost*, and legal reform—were not as radical as some reformers may have hoped, but they probably more than met General Secretary Gorbachev's expectations. Gorbachev also managed to get final-day approval of a special seventh resolution setting a schedule for implementing many of the changes. 

The delegates approved the most significant proposals contained in the Theses; they also endorsed some particularly controversial ideas raised for the first time in Gorbachev's opening report. For instance, the conference approved Gorbachev's proposal to restructure the Supreme Soviet and affirmed the notion that party first secretaries up and down the line—implicitly including the General Secretary—should chair their corresponding soviets. On the other hand, while the resolution explicitly endorsed in general terms “the proposals for the reform of the political system set out in M. S. Gorbachev's report,” they omitted any reference to some important specifics of his program—such as significantly enhancing the powers of the state President and certifying party members before the next Party Congress. Despite the fact that the *glasnost* policy came in for some heavy criticism by conservative delegates during the course of the debates, it received stronger support in the resolution

than it did in either the theses or the report, possibly attesting to the influence of drafting commission chairman Aleksandr Yakovlev. In the foreign policy area, the resolution backed off from statements found in the other documents; it did not blame the “militarist imperialists” for drawing the USSR into the arms race, nor did it advocate removing Soviet troops and bases from foreign territories. 

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Some comments on the structure of the following matrix should facilitate its use as a quick reference to the conference documents. The structure of the matrix essentially parallels the structure of the resolutions; that is, the points follow the order in which they appear in the resolutions. Moreover, since the resolutions are the documents of reference, “similar language” in the “Theses” column, for example, indicates the language in the theses is similar to that in the resolution. 

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Party Conference Resolutions

	Resolution	Gorbachev's Report	Theses
	Political Reform Resolution (Commission chaired by Mikhail S. Gorbachev)		
The state and government	Favors strengthening legislative, administrative, and monitoring functions of soviets and giving them access to a steady source of income in the form of taxes from enterprises in their territories and from the local population	Similar language	Similar language
	Calls for periodic release of deputies from their jobs to work full time in soviets	Similar language	Suggest deputies would work full time for duration of term on soviet
	Advocates establishing permanent presidiums of soviets, whose chairmen will be elected by secret ballot	Similar language	Do not mention election of chairman
	Recommends, as a rule, that party first secretaries chair their corresponding soviets	Similar language, but invites debate on whether posts should be combined at the highest level	Not mentioned
	Endorses nomination of several candidates, secret ballots, and competition when forming <i>ispolkoms</i> (executive committees) chosen by soviets	Similar language	Similar language
	States members of <i>ispolkoms</i> and important staffers, judges, arbiters, and prosecutors cannot be deputies of corresponding soviets (inter alia, this means party first secretaries will not be in the <i>ispolkom</i>)	Similar language	Similar language
	Limits state officials in elected and appointed posts to two consecutive five-year terms	Suggests a third term for the highest tier	Suggest the possibility of third term under certain circumstances
	Calls for unrestricted nomination of candidate deputies, broad discussion of candidates, more candidates than seats, and extensive powers to preelection meetings that select candidates	Similar language, but only mentions "competitive selection of candidates"	Do not propose multicandidate elections and call only for the free nomination and wide discussion of candidates
	Advocates the creation of a Congress of People's Deputies consisting of deputies from territorial and national territorial districts and representatives from trade unions, Komsomol, and other public organizations to meet annually	Similar language	Call only for enhancing role of the Supreme Soviet
Suggests creating a small two-chamber Supreme Soviet, which will function permanently as a standing legislature, elected by the Congress of People's Deputies every five years	Similar language, but suggests it consist of 400-450 deputies	Not mentioned	

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Party Conference Resolutions (continued)

	Resolution	Gorbachev's Report	Theses
	Political Reform Resolution (Commission chaired by Mikhail S. Gorbachev)		
	Endorses electing a Supreme Soviet chairman by secret ballot	Similar language, but elaborates on the Chairman's responsibilities, including drafting important laws, deciding key foreign policy issues, heading the Defense Council, and proposing candidates for Premier; the Chairman would also head Supreme Soviet Presidium	Not mentioned
	Favors increasing role and responsibility of Council of Ministers	Similar language	Not mentioned
	Calls for elimination of superfluous components of entire government apparatus and reducing its personnel	Similar language	Similar language
	Calls for the creation of a uniform system of public and state supervision, subordinate to elected organs	Similar language	Similar language
The public	Ensures civil rights and liberties and calls for legislation to protect constitutional rights—such as freedom of opinion, inviolability of the home, correspondence, and telephone	Similar language	Similar language, but also call for protecting the freedom of assembly and to hold rallies, street processions, and demonstrations
	Calls for legislation to protect "freedom of belief"	Calls for respect toward religious believers, and asserts all believers are USSR citizens with full rights	Not mentioned
	Does not mention role of human rights under socialism	States that human rights are an inalienable characteristic of socialism and that the party intends to enrich the rights of the individual "on socialist soil"	Not mentioned
	Favors enhancing independence and responsibility of public organizations, (for example, Komsomol, trade unions) as long as they assist the cause of socialist renovation; makes no reference to informal groups	Similar language	Call for a "legal basis" for activities of "self-motivated associations," presumably including informal groups
The party	Reaffirms the party's leading role in society and recalls the historical basis of the one-party system (presumably rejecting the creation of opposition parties)	Similar language, and rejects use of democratic rights for antidemocratic ends—such as creating opposition parties	Similar language
	Describes as the party's paramount task the full restoration of Lenin's understanding of democratic centralism, providing for freedom of debate at the discussion stage and unity of action once decisions have been adopted	Similar language, and also recalls Lenin's opposition to party officials who condemned others for thinking differently	Similar language and also recall Lenin's tolerance for diversity of views

~~Secret~~**Party Conference Resolutions (continued)**

Resolution	Gorbachev's Report	Theses
Political Reform Resolution (Commission chaired by Mikhail S. Gorbachev)		
Demands the party not substitute itself for state and economic organs nor issue direct instructions to the state	Similar language	Similar language
Demands putting an end to replenishing party ranks by a quota system and suggests collective opinion should be involved in discussions of party admissions	Similar language	Similar language
Forbids the party apparatus from supplanting the full party committees and favors enhancing the work of party meetings and plenums	Similar language	Similar language
Favors broader participation of the Central Committee in Politburo work and setting up commissions in the Central Committee dealing with areas of major importance in foreign and domestic policy	Similar language	Suggest the Central Committee should be more involved in discussions of the party line and ask for new forms of work between plenums, but do not mention creating commissions
Supports publishing stenographic record of party plenums and draft resolutions	Not mentioned explicitly but rejects secrecy in party work and unjustified suppression of information	Not mentioned explicitly but call for wide information on matters of domestic and foreign policy
States the nomenklatura is becoming obsolete and recommends cadre training, education as criteria for selection, and adds that elections should determine cadre questions	Mentions the necessity of training, but only indirectly criticizes the nomenklatura	Describe as outdated the party's formal approach to selection and distribution of cadres
Endorses secret ballot elections of party committee members and secretaries through the Central Committee, including the possibility of allowing a greater number of candidates than seats; favors allowing party organizations to nominate candidates to superior committees	Similar language, but fully endorses the right to nominate more candidates than seats through the Central Committee level	State that Communists have a right to nominate more candidates than seats, but does not mention role of lower party organizations in the nomination process
Advocates two consecutive five-year terms from the raykom through Central Committee levels, including all bureau members, secretaries, the Politburo, and the General Secretary	Raises possibility of a third term for the highest tier	Do not explicitly mention the Politburo and General Secretary and raise the possibility of a third term in some cases
Favors creating a single control and audit organ to be elected at congresses and conferences to replace the current party control and audit committees	Similar language	Similar language

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Party Conference Resolutions (continued)

Resolution	Gorbachev's Report	Theses
Political Reform Resolution <i>(Commission chaired by Mikhail S. Gorbachev)</i>		
Favors reorganizing and reducing the party apparatus in the very near future	Rejects the present structure of the Central Committee and subordinate party bodies—right across branches of administration, and calls for a restructuring and a reduction of the apparatus	Mention need to introduce the "necessary structural changes" to the party
Suggests holding a party conference every two to three years with powers to change up to 20 percent of the Central Committee	Not mentioned	Raise the possibility of partially renewing the Central Committee between congresses
Does not mention certification of party members	Suggests certification at open party meetings	Suggest expediting certification of party ranks before the next Congress
Does not mention mandatory retirement	Mentions proposal to restrict tenure of elected offices to a certain age, but rejects it	Not mentioned
Resolution on Restructuring <i>(Commission chaired by Mikhail S. Gorbachev)</i>		
Calls for the completion of radical economic reform within current five-year plan	Similar language	Similar language
Supports course aimed at transforming functions and work style of ministries and other central departments, eliminating superfluous components and transferring their rights to localities	Similar language	Criticize a number of ministries, departments, and economic organs for stalling economic reform but do not suggest eliminating components
Calls for urgent measures to improve transportation, processing, storage of agricultural goods; saturating the market with consumer goods; and drastically increasing the volume and pace of housing construction	Similar language	Similar language
Calls for price reform after nationwide discussion and assures that living standards will be protected	Similar language	Similar language
Endorses a strong youth policy and the restoration of the Komsomol's autonomy	Suggests a CPSU CC plenum on youth	Favor the restructuring of the Komsomol
Favors strengthening collaboration with socialist countries, pursuing a "common European home," and enhancing the prestige of the United Nations	Similar language, but also advocates removal of troops and bases from foreign territories and reducing arms levels to strengthen security	Similar language, but also supports the ideas of defense sufficiency, the doctrine of nonaggression, removing forces and bases from foreign territories, and strengthening national and regional security by reducing arms levels

Party Conference Resolutions (continued)

Resolution	Gorbachev's Report	Theses
Resolution on Restructuring (Commission chaired by Mikhail S. Gorbachev)		
Does not mention the decisionmaking process that led the USSR into Afghanistan	Recalls that important decisions were made by a narrow circle that led to inadequate reactions to international events and erroneous decisions	Do not comment on the decision-making process
Approves decision to withdraw from Afghanistan on the basis of the Geneva agreement	Describes the withdrawal from Afghanistan as a landmark among political settlements of regional conflicts	Similar language
Endorses settling regional conflicts on the basis of national reconciliation and freedom of choice	Strongly advocates the concept of free choice, stating that the imposition of a social system, way of life or policy, particularly by military means, is dangerous and puts oneself in opposition to the objective course of history	Not mentioned
Endorses the continued improvement of Soviet-US relations and the removal of the threat of war through constructive dialogue and disarmament	Notes the improvement of Soviet-US relations, exemplified by success of the Washington and Moscow summits	Similar language, but also attribute the turn toward eliminating the nuclear threat to summitry
Advocates releasing resources for peaceful building and for restructuring and states that all defense building must be geared toward qualitative measures in accordance with Soviet defense doctrine	Similar language, but adds that "new objective factors" determine defense development	State that the militarist danger inherent in imperialism determines defense building—which now must focus on qualitative improvements to hardware and personnel
Does not mention the origin of arms race or the continued threat of war	Blames past reliance on military rather than political means to confront imperialism for drawing the Soviet Union into the arms race	State USSR was drawn into arms race because it sought military parity and did not exploit political opportunities to secure the state
Does not mention continued threat of imperialist militarism	Recalls the threat to peace from imperialist militarism and states there are no guarantees that the current positive processes are irreversible	Tie the threat of imperialism to defense building
Does not mention the creation of a new body to discuss international issues	Calls for creation of an effective mechanism with full constitutional powers for businesslike, qualified discussion of international political issues	Not mentioned

Party Conference Resolutions (continued)

Resolution	Gorbachev's Report	Theses
Anti-Bureaucracy Resolution <i>(Commission chaired by Yegor K. Ligachev)</i>		
Recommends assessing measures to restructure management and reduce its links and apparatus	Similar language	Similar language
Calls for transferring more management functions downward, simplifying administrative procedures, and reducing statistical reporting; and suggests major economic and social problems be solved with benefit of expert assessments and nationwide discussion or referendums	Does not mention the possibility of referendums	Do not suggest methods to solve socioeconomic problems
States the function and responsibility of every management component should be clearly defined	Similar language	Not mentioned
Calls for making state and public institutions and party committees less forbidding to working people by eliminating formalism and redtape	Not mentioned	Not mentioned
States it is necessary to ensure that selection and placement of cadres take place openly on a competitive basis	Similar language	Similar language
Recommends including in laws currently being drafted provisions regarding stepping up the struggle against bureaucracy	Not mentioned	Not mentioned
Interethnic Relations Resolution <i>(Commission chaired by Nikolay I. Ryzhkov)</i>		
Favors expanding rights of republics and autonomous units through decentralization, transferring a number of managerial functions to localities, and enhancing their role in forming their own budgets	Asks conference only for reliable guidelines for relations between nationalities in the economic sphere	Do not call for an adjustment to local budget authority
Calls for enhancing role of soviets, especially the Soviet of Nationalities, and standing commissions in dealing with interethnic problems and suggests forming a special state body for nationality affairs	Similar language	Not mentioned
Suggests developing legislation governing relations between republics and autonomous units and introducing amendments to USSR and regional constitutions	Similar language, but does not mention amending constitutions	Not mentioned

Party Conference Resolutions (continued)

Resolution	Gorbachev's Report	Theses
Interethnic Relations Resolution (Commission chaired by <i>Nikolay I. Ryzhkov</i>)		
Favors ensuring nationalities residing outside their state territorial formations be given more opportunities to realize cultural demands, that is, education, language, and satisfaction of religious needs	Calls for examining the interests of ethnic groups living outside their ethnic region, noting that an individual of any nationality has full rights in any area of the country	Similar language
Suggests creating scientific center for study of problems on national relations	Calls for the creation of state and social institutions to deal with nationality problems on a permanent basis	Not mentioned
Supports holding a CPSU CC plenum on nationalities	Similar language	Not mentioned
Alludes to Armenian-Azerbaijani dispute, stating that any actions dividing nations and ethnic groups are morally unacceptable and inimical to state interests, and adding that any national problems must be solved within the framework of socialist democracy and legality and without detriment to international cohesion	Similar language, and also chastises those who use their democratic rights for antidemocratic ends—such as redrawing borders	Make no allusion to the current unrest
Resolution on <i>Glasnost</i> (Commission chaired by <i>Aleksandr N. Yakovlev</i>)		
States that <i>glasnost</i> —as an essential condition for the expression of democracy, the implementation of self-management, and the promotion of peace and cooperation—must be deepened and supported	Similar language	Not mentioned
States principles of <i>glasnost</i> : the inalienable right of every citizen to obtain full information on any issue of social life not a state or military secret; the right to open and free discussion of any socially significant issue	Rejects secrecy and unjustified suppression of information only in reference to party work	Stress need for constant and constructive political dialogue and for wide dissemination of information on matters of domestic and foreign policy
Envisages enshrining in USSR <i>Constitution</i> a citizen's right to information, preparing legislation defining limits of secrecy, and establishing accountability for the dissemination of state secrets	Does not mention the need for legal and constitutional protection of rights to information, but it rejects unjustified suppression of information	Do not mention the need for legal and constitutional protection of rights to information, but stress the need for wide information on domestic and foreign policy matters

Party Conference Resolutions (continued)

Resolution	Gorbachev's Report	Theses
<i>Resolution on Glasnost</i> <i>(Commission chaired by Aleksandr N. Yakovlev)</i>		
Urges party committees to give extensive written information on their work and to report regularly to party and economic bodies; and calls for provisions to give committee members access to sessions, documents, and data of the bureau—including Politburo—accountable to them	Rejects secrecy in party work and suggests the Politburo should report back information about its activities to Central Committee plenums	State that unwarranted secrecy in party life should be fought
Calls for removal of unwarranted restrictions on use of statistics on socioeconomic and political development, the creation of a modern system to disseminate information, and the establishment of laws on use of archive material	Not mentioned	Not mentioned
Requires the media to maintain high ideological standards, professional ethics, objectivity and absolute reliability of information, and gives each citizen the right to publish a valid response to criticism in the press	Similar language	Not mentioned
States it is impermissible to use <i>glasnost</i> to harm the interests of the state or the rights of the individual or to express national or religious intolerance; it is also impermissible to manipulate <i>glasnost</i>	Similar language	Not mentioned
<i>Resolution on Legal Reform</i> <i>(Commission chaired by Andrey A. Gromyko)</i>		
Ensures supremacy of the law in all spheres of life	Similar language	Similar language
Calls for consistent implementation of the principle: everything is permitted which is not prohibited by law	Similar language	Similar language
Mentions broadly the need to guarantee implementation of people's political, economic, social rights, and freedoms by making substantial changes to laws on property, economic relations, tax, labor, and crime	Similar language	Similar language
Favors establishing a constitutional supervisory committee to monitor conformity of laws to the <i>Constitution</i>	Proposes the new committee be elected by the Congress of People's Deputies	Not mentioned

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Party Conference Resolutions (continued)

Resolution	Gorbachev's Report	Theses
Resolution on Legal Reform (Commission chaired by <i>Andrey A. Gromyko</i>)		
Ensures the independence of judges and their subordination to the law alone, and recommends criminal contempt liability for interference	Similar language	Similar language, but do not mention contempt of court recommendation
Recommends rayon through kray courts be elected by superior soviets for longer terms	Similar language with a suggestion of a 10-year term	Not mentioned
Supports enhancing role and number of assessors during examination of complex cases	Similar language	Similar language
Extends powers of State Board of Arbitration in protecting rights of enterprises and cooperatives	Similar language, but includes a broader reference to organs of state arbitration	Similar language, but make a broader reference to state arbitration
Enhances responsibilities of procuracy as it monitors uniform application of laws	Similar language	Similar language
Suggests transferring most criminal investigations to investigative arm of the MVD and constituting it as an independent structure not subordinate to republic or local organs	Similar language	Not mentioned
Favors enhancing role of attorneys and improving their training	Similar language	Similar language
Calls for improving public legal education and availability of legal literature	Similar language on public legal education	Similar language, but frame availability issue in terms of improved codification

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**Economic Policy Issues at
the Party Conference** [redacted]

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No major new economic policy initiatives were revealed at the Soviet party conference last month. Gorbachev made it abundantly clear—by criticizing one reform economist by name for focusing on economic issues—that the primary task of the conference was political reform, a prerequisite for reforms in all other areas. Nevertheless, the “Theses,” the speeches of Gorbachev and others, and the final resolutions yield important clues to the general shape of future economic policy. [redacted]

economic managers for their new responsibilities, and the lack of price reform, which is not scheduled to begin until 1990. The delegates were united in fingering the ministerial bureaucracy as the main culprit, and some called for its complete elimination. Institute of Economics Director Leonid Abalkin was one of the lone dissenters, claiming that “the causes are considerably deeper and more serious than that.” In his view, the root problem is the focus on quantitative growth targets. [redacted]

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Evidence provided by the conference suggests:

- The economic reform program outlined in June 1987 will be fine-tuned to improve implementation but no major changes appear to be contemplated.
- There is disagreement over how much progress has been made thus far but general agreement that the turning point in economic performance has not yet been reached.
- There is clear concern about the lack of progress in improving living standards but little evidence that a major reallocation of investment resources, beyond that already announced, is in the cards.
- Acknowledgment by reform economists and Gorbachev alike that quality and quantity are difficult targets to pursue simultaneously may indicate that the 13th Five-Year Plan (1991-95) goals will be less ambitious than those of 1986-90. [redacted]

The consensus of the delegates was that the ministries were able to preserve “the old administrative diktat” through the new system of compulsory state orders and normatives, which leaves the enterprise with little flexibility in determining output or the distribution of profits. The ministries were identified not only as the major obstacle to expanding decisionmaking at the enterprise level but as a potential impediment to Gorbachev’s plan for transferring economic power from the local party organizations to the soviets. As one delegate said, “Local soviets will never receive any real power under any electoral system unless enterprises are freed from ministries. They won’t obtain it without a fundamental change in the procedure for forming local soviets’ budgets.” At present, much of the local infrastructure—housing, cultural expenditures, roads—is financed by the ministries that run local enterprises. [redacted]

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Economic Reform

A commitment was made to continue the “radical” reforms “at any cost,” and major problems in implementation were acknowledged. The theses candidly admitted that the economic reforms “are paralyzed to a considerable extent” and promised that the party conference would “profoundly analyze the causes” of the poor start (many of the reforms began on 1 January 1988). Gorbachev identified three major obstacles—bureaucratic resistance, poor preparation of

Although the speeches and official documents of the party conference fully acknowledged the numerous problems, no new solutions were proposed. They called only for the reduction of state orders, the accelerated implementation of wholesale trade, and improvements in the financial and credit system—revisions which are already reportedly under way. No indication was given that the price reform issue would be resolved sooner than originally scheduled despite Gorbachev’s recognition that it is central to the

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reform's successful implementation. In fact, the populace was again reassured that such reforms would be thoroughly discussed in public before adoption and that this would be accomplished "without detriment to the population's living standards."¹ Also, the weak promise of the anti-bureaucracy resolution that "the links and apparatus" of the economic bureaucracy would be reduced was a far cry from the demands of the delegates that its mission and structure be radically changed to ensure the shift in economic decision making toward the local level. [redacted]

Economic Performance

The theses admitted that "a fundamental breakthrough" in economic performance had not been achieved, mainly because the economic reforms and the modernization program had not had time to produce results. At the same time, they were somewhat optimistic, as was Gorbachev, that "positive changes are taking place" and that "negative trends" have been halted. The first encouraging results were reported in the creation of new equipment and technology, housing, agricultural production, and demographic trends. [redacted]

Institute of Economics Director Abalkin directly challenged this assessment, producing statistics that showed that growth in national income during 1986-87 had been at a slower rate than in the "stagnation years" of the 11th Five-Year Plan. Speaking in alarmist tones, he charged that:

The consumer market situation has deteriorated, and the situation in the scientific-technical progress sphere, where we are lagging further and further behind the world and the lag is becoming increasingly dangerous, is giving rise to particular anxiety. [redacted]

¹ Nikolay Petrakov, head of the price reform commission, recently told US Embassy officers in Moscow that retail price reform may not be in place by 1991 and "may never happen" because of opposition in the leadership and because it might weaken popular support for *perestroyka*. He said that, despite promises that any price changes would be publicly discussed beforehand, debate on the issue was so sensitive it might be confined to the party. [redacted]

Stung by this criticism and also by Abalkin's doubts about the wisdom of combining the chairmanship of local party organizations and soviets, Gorbachev accused Abalkin of "economic determinism" and of not fully comprehending the significance of political reform. Director of the USA and Canada Institute Georgiy Arbatov also disagreed with Abalkin's assertion that nothing had been achieved in three years and that the economy had remained in the same stagnant state. He argued that success should not be measured by quantitative economic indicators but by the degree to which the "political, spiritual, and moral prerequisites for economic reform" were being created. The other delegates seemed to side more with Arbatov than Abalkin, acknowledging lags in machine building and the consumer sector in particular but nonetheless believing that some forward movement had been made, laying the groundwork for future gains. [redacted]

Oddly, the final resolution on restructuring, produced by a commission chaired by Gorbachev, painted an almost unrelentingly dismal picture of the economy that echoed Abalkin's themes: "Scientific and technical progress is developing slowly, plans for increasing national income and saving resources are not being fulfilled. There is no appreciable improvement in output quality. The country's financial situation remains complex. The food and consumer goods supply situation remains tight." The official characterization of past and future growth is not an unimportant issue. A perception of some forward momentum is probably essential for the populace's wholehearted commitment to *perestroyka*. [redacted]

Resource Allocation

Of all the resource claimants, the consumer clearly grabbed center stage at the party conference. The theses had laid the groundwork, excoriating the "left-over principle" that had in the past applied to the allocation of resources to the consumer. An "intolerable" failure to meet consumer targets was admitted. Abalkin scolded that the intent of the 27th Party Congress to increase the rates of growth in Group B

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industry (consumer goods) over that of Group A (producer goods) had not occurred. The resolution on restructuring set the most important task in the "socioeconomic sphere" as "accelerating the solution to the urgent problems of the people's prosperity" and "the prime need" as a substantial improvement in the food supply. The need to increase investment, even in the machine-building industry, got unusually short shrift. [redacted]

Abalkin waxed eloquent on this point also, declaring that "by continuing to opt for purely quantitative volume economic growth we are unable to solve the problem of fundamentally improving output quality, retooling the national economy, and improving efficiency and cannot turn the economy round toward the consumer." [redacted]

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The documents and speeches listed the following measures, none of which are new, that are being taken to improve the lot of the consumer:

There were no hints in the documents or speeches that the current five-year plan would be scrapped in favor of a seven-year plan more amenable to the reform's emphasis on quality and new technology, which had been rumored. Both Gorbachev and the final resolution on restructuring mentioned the 1991-95 plan but the resolution contained only a vague reference to its general priorities. Maintaining an evenhanded approach, it recommended that the plan inextricably link "the social reorientation of the economy" with a new quality of economic growth, intensification of production, resource savings, the acceleration of scientific and technical progress, and the modernization of machine building. [redacted]

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- Increased resources for housing construction.
- Retooling of light industry.
- Improvements in the transportation, processing, storage, and sale of agricultural products.
- Better incentives for farms and farmers (reduced central directives for the farms and collective contracts and leasing for the farmers).
- Improved health care and environmental conservation.
- Expansion of the private sector.
- Increased support from the defense industries. [redacted]

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The Five-Year Plan

The theses stubbornly maintained that fulfilling the 12th Five-Year Plan was feasible. This refusal to acknowledge any error in setting such ambitious goals seemed to indicate that the emphasis on quantity might continue during 1991-95. However, Gorbachev's opening speech to the party conference contained his clearest statement to date of the inadvisability of emphasizing quantitative over qualitative growth:

We still cannot renounce the old approaches. We do not need simply millions of tons of steel, millions of tons of cement, millions of tons of coal; we need specific end results. How long must we go round in a vicious circle of hopelessly obsolete ideas and formulas? Production for the sake of production, and the plan for the sake of the plan.

Soviet Approaches to Persian Gulf States

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An adroit use of diplomatic, economic, and military tools has enabled Moscow to enhance its influence with conservative Persian Gulf states during the past three years. Under the leadership of General Secretary Gorbachev, the USSR has established relations with Oman, the United Arab Emirates (UAE), and, on 1 August, Qatar. The Kremlin also has gained acceptance for a Soviet naval presence in the Gulf, and is conducting an active regional and bilateral campaign to gain credibility with the Gulf Cooperation Council (GCC) states as a major Persian Gulf actor. The 21 June meeting between the Soviet Ambassador to Kuwait and the Amir of Bahrain and the attendance of Soviet Muslim delegates at the Third Islamic conference in Mecca are indicative of the continuing success of Moscow's efforts to improve ties to the Gulf states. Gulf Arab leaders now view the Soviet Union in a more favorable light. Nevertheless, while Moscow is likely to strengthen contacts and relations with the GCC states, factors such as the Kremlin's diplomatic support for Iran and Arab suspicions about Soviet intentions limit possible Soviet advances in the Gulf (see map).

Soviet Strategy and Goals in the Persian Gulf

In the past year, Moscow has continued its efforts to establish relations with the two Gulf states that do not have ties to the USSR: Bahrain and Saudi Arabia.¹ Similar efforts in Qatar recently paid handsome dividends. As the dominant member of the GCC and an important player in the Middle East, Saudi Arabia is critical to the success of the Soviet diplomatic push. Moscow has also sought to solidify its ties to Oman and the UAE, both of which are still uncomfortable with an expanded Soviet diplomatic and military presence in the Gulf.

¹ Neither the Soviets nor the Saudis ever formally severed diplomatic relations when Moscow withdrew its emissary from Saudi Arabia in the late 1930s. Thus, technically they still have relations, but in fact there have been no ties for almost 50 years.

We believe the Soviet leadership reasons that improved ties to the Gulf monarchies could:

- Reduce US influence and naval access in the Gulf.
- Secure US acknowledgement of the USSR's "legitimate" role in the Middle East.
- Aid the Soviet economy by opening new hard currency markets for Soviet military and nonmilitary exports.
- Give the Soviets better access to Gulf banking centers and Arab credit.
- Increase support for the Soviet call for an international conference on the Arab-Israeli conflict.

Methods of Soviet Penetration

To achieve its goals in the Persian Gulf, Moscow uses various contacts to bridge gaps in its relationships with the Gulf states and to demonstrate that the Soviet Union is both reasonable and reliable. Although there is no hard and fast approach, Moscow seems to prefer initial contacts to be unobtrusive and low key. As contacts warm, the Soviets increase the visibility and status of visits. Methods of Soviet penetration include visits by Soviet media officials and placement of propaganda in the local press; exchanges between Soviet Islamic organizations and their Gulf Arab counterparts; increased contacts by visiting trade, cultural, and scientific delegations; improved trade and arms sales; and official visits by Soviet diplomats.

Press and Propaganda. Moscow has used its journalists to play on Arab discontent with US policies, influence local perceptions of the Soviet Union, and pave the way for official contacts. In late 1986, Igor Kuznetsov, the Kuwaiti Bureau Chief for Novosti, visited Doha. Although it was low key and unofficial, it nevertheless was the first sanctioned visit by a Soviet journalist to Qatar and opened the door for

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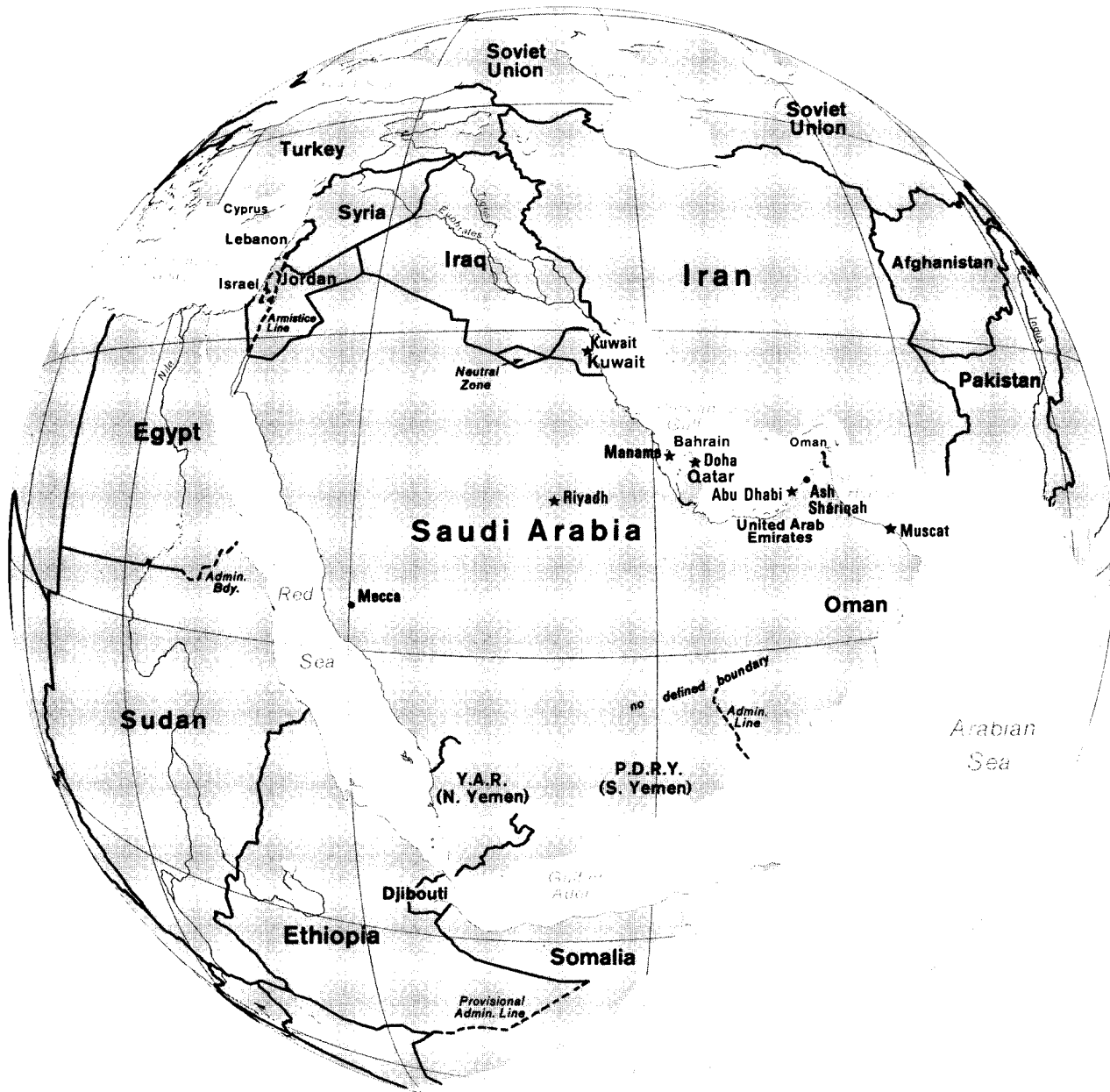
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The Gulf Cooperation Council States



The six Gulf Cooperation Council (GCC) member states are shown in red.

Boundary representation is not necessarily authoritative.
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increasingly frequent visits by Soviet journalists, which have generated much favorable publicity in Qatar. According to the US Embassy in Doha, Soviet media placements have increased significantly in quantity and prominence in the Qatari press. [redacted]

In Kuwait, Soviet propaganda reportedly finds fertile ground among Kuwaitis and Arab expatriates dissatisfied with and suspicious of US foreign policy in the Middle East. Stories and interviews upholding Soviet support for Arab causes and attacking US policies allegedly interfering in Arab and Persian Gulf affairs often appear in the Kuwaiti press. In a recent interview in the Kuwaiti media, the Chief of the Persian Gulf and Jordan section of the Soviet Foreign Ministry predictably promoted Soviet positions and attacked the ability of the United States to solve the Arab-Israeli conflict. Soviet efforts to woo local press officials are most apparent in Kuwait. In March a delegation headed by the director of the Kuwait News Agency (KUNA) visited Moscow. TASS and KUNA have signed a news-sharing agreement, and TASS and Novosti maintain an office in Kuwait, the only one in the GCC states. [redacted]

Islamic Contacts. Moscow's anti-Islamic policies in Central Asia and Afghanistan have been a major stumblingblock to improved Soviet-Gulf state ties. Some conservative Gulf leaders have stated that improvement in the status of Soviet Muslims is a prerequisite for full normalization of relations. [redacted]

[redacted] King Fahd favored resumption of relations provided that the Soviets complete their withdrawal from Afghanistan and improve their treatment of Soviet Muslims. [redacted]

Moscow has used its official Islamic organizations to promote the credibility of its domestic Islamic policies. Several Muslim delegates from the Soviet Union attended the Third Islamic Conference held in Mecca, 10-15 October 1987. In 1986 and 1987 there were three exchanges between Soviet and UAE Islamic delegations. At the end of the latest visit to the Soviet Union, the head of the UAE delegation stated that he viewed Soviet treatment of Muslims in a favorable

light and that "there can be no doubt that such visits play an important role in furthering contacts between our two countries." [redacted]

Cultural and Scientific Delegations. The Soviets use cultural and scientific delegations to accustom the Gulf states to the Soviet presence and improve the local image of the Soviet Union. In Qatar, the Soviets have been pressing for a cultural center and have offered to educate Qatari students in the USSR. In 1987 the Soviets dispatched a group of health specialists to the UAE and staged large exhibits in the UAE's December Ash Sharqah (Sharjah) trade and book fair. In March 1988, a delegation from the Soviet Academy of Sciences met with Kuwaiti experts to discuss cooperation in the field of petroleum development. Additionally in March, the Kuwaitis and the Soviets signed a two-year cultural agreement covering the sciences, art, health, and tourism. The agreement called for the exchange of delegations as well as for the exchange of invitations to participate in international exhibitions. [redacted]

Trade. Moscow views trade as a vehicle to open doors for further diplomatic penetration and, whenever possible, to generate hard currency. [redacted]

[redacted] While trade with the Soviet Bloc is small compared with trade with the West, Moscow welcomes the modest gains in trade as steps toward formalizing or strengthening relations. The promotion of small-scale economic ventures, regardless of their profit potential, has significant value for Moscow's policy of projecting a benign image to conservative Arab states that previously shunned the USSR. [redacted]

Gulf officials have indicated that they see a growing potential for trade with the USSR and Eastern Europe. According to Saudi press reports, Saudi Arabia has sold over 170,000 tons of grain to the Soviet Union. Additionally, in April, for the first time since the establishment of relations, the UAE lent \$50

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million to the USSR, reportedly at a favorable interest rate. Moreover, [redacted] Aeroflot landing rights and transit trade with the USSR were discussed during the April visit of Soviet Deputy Chairman of the Supreme Soviet, Georgiy Tarazevich, to Oman. [redacted]

The Soviets are increasingly targeting private firms to broaden contacts within the Gulf states and to open up new markets for hard currency exports. According to Saudi press, the Soviets have begun selling gold bullion directly to banks and precious metal dealers in the Gulf. Additionally, the US Embassy in Riyadh reports that the Saudi Government does not hinder local business figures from visiting the Soviet Bloc. This seems to indicate that GCC leaders are increasingly willing to permit contact between their citizens and Soviet officials. [redacted]

Arms Sales. Arms sales generate hard currency, broaden contacts with local defense sectors, and expand the Soviet presence by increasing the number of military advisers and technical personnel in the buying nation. Recently, the UAE purchased Soviet SA-14 shoulder-fired antiaircraft missiles, while King Fahd publicly announced that Riyadh is willing to buy arms from Communist countries. Kuwait—a longtime buyer of Soviet military hardware—on 8 July signed a \$300 million contract with the USSR for the delivery of 254 BMP-2 infantry fighting vehicles and 30 command vehicles. This deal could substantially expand the Soviet 20-man military advisory group currently in Kuwait. Additionally, [redacted] during the first six months of 1988 the Soviets sent a delegation to Kuwait offering MIG-29 aircraft and sophisticated ordnance. [redacted]

Official Visits. The Soviets maintain a steady stream of diplomats flowing into the Persian Gulf. During 1988 there were significant contacts between Soviet officials and leaders of two of the GCC states that the Soviets have targeted: Saudi Arabia and Bahrain. The 20-22 June visit to Bahrain of the Soviet Ambassador to Kuwait was the first visit by a Soviet official to that country. [redacted] the Ambassador briefed high-ranking officials, including the Amir, on the US-USSR summit and discussed the prospects

for relations among Bahrain, Saudi Arabia, and the Soviet Union. The US Embassy in Manama reported that this visit was a significant step toward establishing diplomatic ties. [redacted]

In late February, Vladimir Polyakov, Chief of Near East and North Africa Administration of the Soviet Foreign Ministry, was the first Soviet official to visit Saudi Arabia in 50 years. Although Saudi and Bahraini officials claim that full diplomatic relations are not in the offing, Moscow probably views these contacts as a conspicuous success of its Middle East policy. [redacted]

Moscow regularly dispatches officials to Kuwait, Oman, and the UAE to strengthen bilateral ties, change Gulf perceptions of the Soviet Union, and sell Soviet policy. In January 1988, the Deputy Chief of the Central Committee's International Department and the Kremlin's top party expert on the Middle East, Karen Brutents, consulted Kuwaiti and UAE officials on Soviet policy toward Iran and the UN cease-fire resolution for the Iran-Iraq war, a major thorn in USSR-Gulf state relations. In February, Ambassador at Large Oleg Grinevskiy met with the Amir of Kuwait to discuss the Soviet withdrawal from Afghanistan. [redacted] the Soviets requested Kuwaiti support for the Soviet withdrawal plan. During his April visit to Oman, the UAE, and Kuwait, Deputy Chairman of the Supreme Soviet Georgiy Tarazevich emphasized Soviet domestic liberalization and attempted to portray the "new" Soviet leadership as being more in tune with conservative Arab thinking. Another consultation with the Kuwaitis was held in early May between Ambassador at Large Mikhail Sytenko and Kuwaiti officials. During this visit, the Gulf war, bilateral issues, and the Arab-Israeli conflict were discussed. [redacted]

Changing GCC Attitudes

Moscow's approach of portraying the current Soviet leadership as being less ideological and, therefore, less intimidating than its predecessors has eased Gulf fears of the Soviet threat. Its policy has favorably influenced the Gulf states to reevaluate their position on the Soviet Union and has made relations with

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Moscow a more palatable option. There now seems to be a willingness among the GCC states to accept the USSR as an important regional actor. At the very least, the GCC states seem to be more disposed to consider Soviet offers. In late 1986, [redacted] the Saudis rejected a request from the Soviets to allow a "private" trade delegation to meet with senior members of the Saudi Chamber of Commerce. Since then, rumors of an impending visit by Foreign Minister Shevardnadze to Saudi Arabia continue to abound, a Saudi official was unwilling to rule out the establishment of Soviet Bloc trade missions, and Bahrain's Foreign Minister told the US Ambassador in March 1988 that it was unrealistic to ignore the Soviet Union. [redacted]

Outlook

Soviet diplomatic maneuvers have now yielded tangible results in Qatar and are likely to yield more feathers for Gorbachev's cap over the next two years, possibly even the establishment of diplomatic relations with Bahrain and Saudi Arabia. However, a real increase in Soviet influence in the Gulf will, in our view, be harder to come by. Moscow will have to address major Gulf concerns before it will be able to translate its diplomatic gains into a lasting, significant presence in the Persian Gulf. [redacted]

Notwithstanding Iran's recent acceptance of UN Resolution 598, the Iran-Iraq war will continue to dominate Gulf Arabs' attention. Consequently, Moscow is finding it increasingly difficult to balance its Gulf strategy with its desire to improve relations with Iran. Gulf leaders are dissatisfied with Soviet reluctance to support a follow-on embargo resolution to Resolution 598 and with Moscow's continued courting of Teheran. To avoid undermining its fragile relationship with Iran, the Kremlin so far has been willing to risk Arab displeasure. This fact has not been lost on most of the Gulf states—Oman and the UAE are interested in maintaining ties to Iran—and will continue to complicate Soviet Gulf diplomacy. [redacted]

While the ongoing withdrawal from Afghanistan will remove a stumblingblock to improved USSR-Gulf relations, the memories of the invasion will continue

Chinese Inroads in the Gulf

We believe that the Soviets are concerned about Chinese inroads in the Gulf. Relations between China and Saudi Arabia have been developing rapidly in recent years. Gulf leaders seem to view China as politically and economically more attractive than the Soviet Union. The sale of the CSS-2 missile system and increasing trade and diplomatic contacts are likely to hasten formal Saudi ties to Beijing. In addition, [redacted] the Saudis plan to participate in an energy trade fair in Beijing in September, which some senior Saudi officials view as an important step toward establishing full diplomatic relations. [redacted] 25X1
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Formal relations between China and Saudi Arabia will be discomfoting to Moscow as these ties are likely to be established well before relations with the Soviet Union are normalized. Moreover, the increasingly close Chinese-Saudi relationship and the willingness of China to provide otherwise unattainable military hardware make it likely that the other Gulf Arab states will expand ties to the Chinese. In early July, Qatar and China established diplomatic relations at the ambassador level, while, according to the US Embassy in Beijing, a senior Chinese official indicated that China and Bahrain could establish diplomatic relations by the end of the year. Moscow may fear that a close working relationship between the Chinese and the Gulf Arabs will reduce the attractiveness of the Soviet Union and hamper its efforts to improve its position in the Gulf. [redacted] 25X1
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to remind the Gulf monarchies of the Kremlin's willingness to use force to advance Soviet goals. The 1987 border clash between Oman and South Yemen, the radical Soviet client, probably underscored for the Omanis the limits on Moscow's ability to substantially influence even a client's behavior and, therefore, to 25X1

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Recent Soviet Activity in the Persian Gulf

1988

- 1 August *USSR and Qatar establish diplomatic relations.*
- 8 July *Economic/Military delegation signs \$300 million arms contract with Kuwait.*
- 20-21 June *Soviet Ambassador to Kuwait visits Bahrain; first official Soviet visit.*
- 9-12 May *Mikhail Sytenko, official envoy of the Foreign Ministry, visits Kuwait.*
- Mid-April *Eduard Gostev, Deputy Chairman for the Bank of Foreign Activity, visits Kuwait.*
- 1-10 April *Visit to Kuwait, Oman, and the UAE by Soviet Deputy Chairman of the Supreme Soviet Georgy Tarazevich.*
- 2-6 March *Visit to Kuwait by a delegation from the Soviet Academy of Science.*
- 20-22 February *Vladimir Polyakov, Chief of MFA Near East/North Africa Countries Bureau, stops in Riyadh; highest level Soviet visit in 50 years.*
- 19 February *Ambassador at Large Oleg Grinevskiy stops in Kuwait.*
- 5-12 January *Middle East expert of the CPSU, Karen Brutents visits Kuwait and the UAE.*

protect their security. Furthermore, Gulf Arab leaders retain their basic anti-Communist attitudes, and they still fear that an increased Soviet presence would invite Soviet meddling and destabilization of their regimes.

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Trade with Communist countries is on the rise, but it is still a small fraction of overall Gulf foreign trade. The Gulf Arabs prefer to deal with the West and will continue to maintain their political, economic, and military ties there. The US naval presence in the Gulf underscores, in the eyes of the Gulf leaders, that the United States is alone able to protect their interests.

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1987

- Late 1987 *UAE Islamic delegation visits the Soviet Union.*
- November *Soviet participation at Ash Shariqah (Sharjah) (UAE) trade fair.*
- October *Soviet Muslim delegates participate in Third Islamic Conference in Mecca.*
- June *Soviet health specialists visit the UAE.*

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**The Soviet Navy in the
Mediterranean: Gorbachev's
Actions Belie His Words** [redacted]

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In his 16 March speech to the Yugoslav Federal Assembly, General Secretary Gorbachev called for a freeze on Soviet and US naval forces in the Mediterranean. A decline in Soviet ship strength in the Mediterranean over the past two years would, on the face of it, seem to underline the sincerity of Gorbachev's Mediterranean proposal. The proposal, however, appears to be more a repackaging of past Soviet gambits than a major shift in Soviet policy, and the decline in ship strength probably is best explained as a step to conserve resources. At the same time, over the past year, Moscow has sought to gain greater access for the Soviet Navy's use of Mediterranean port facilities. In particular, the Soviets appear to be enlarging their facilities at the Syrian port of Tartus, may be receiving greater port access in Egypt, and appear to be expanding naval access in Libya. We believe that at this time Moscow is seeking port privileges to decrease the logistic burden on naval auxiliaries. But, if Moscow so chooses, these expanded port privileges could enable the Soviets to enlarge their naval presence in the future. Gorbachev will probably continue to reiterate his arms control proposal and cite the decline in naval presence as evidence that the USSR is a responsible regional power. He also is likely to cite the negative US reaction to his proposal to justify a continuing Soviet presence in the region. [redacted]

Repackaging

Gorbachev used his March visit to Yugoslavia to repackage Soviet proposals on arms control in the Mediterranean, apparently seeking to embellish Moscow's arms control image while legitimizing its presence in the region. In his speech to the Yugoslav Federal Assembly, Gorbachev called for a freeze on Soviet and US naval forces in the Mediterranean beginning 1 July and proposed the extension of naval confidence-building measures (CBMs) to the Mediterranean. The General Secretary also reiterated Moscow's interest in a conference of "representatives of Mediterranean states and other interested parties to

bring together the many initiatives on the Mediterranean and to determine the rational sequence and order of their implementation." He did not indicate the venue for such talks and the types of activities to be covered. [redacted]

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Gorbachev probably chose to announce his Mediterranean proposal in March with an eye toward complicating NATO discussions of equipping US vessels in the Mediterranean with sea-launched cruise missiles to compensate for systems to be removed under the INF Treaty. Soviet officials have strongly condemned this plan and other methods of compensation. In his speech to the Federal Assembly, Gorbachev labeled Western calls for such compensation as one of the "absurdities" of the early March NATO summit in Brussels. [redacted]

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As a followup, and a probable effort to prompt a US response, Fleet Admiral Chernavin, Soviet Deputy Defense Minister and Commander in Chief of the Soviet Navy, on 25 April repeated the proposal for a freeze and called for mutual reduction by the United States and the Soviet Union in the Mediterranean to 15 warships and 10 support ships—ceilings which would have a far lesser impact on Soviet naval operations in the Mediterranean than on those of the US Navy in these waters. On 28 April the Warsaw Pact submitted language on issues related to security and cooperation in the Mediterranean for inclusion in the final document of the Vienna Conference on Security and Cooperation in Europe (CSCE) followup meeting. [redacted]

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Gorbachev first raised the issue of Mediterranean security during the March 1986 visit of Algerian President Bendjedid to Moscow. He claimed that the Soviets would withdraw their fleet from the Mediterranean if the United States would do so. The General Secretary said that Moscow had "no need to have its

Gorbachev's Mediterranean Proposals

Gorbachev made the following statements in his address to the Yugoslav Federal Assembly, 16 March 1988:

- For us the Mediterranean Basin is not a foreign, remote region, it is close to our southern border and the only maritime route linking our southern ports with the world's ocean line through it. Naturally we are interested in the routes of peace, not war, passing through here.
- Along with the proposals to reduce military potentials in the Mediterranean area, made by the Soviet Union earlier, we would like to submit additional proposals for consideration by the international community.
- First. Confirming our readiness for the withdrawal of the navies of the USSR and the United States from the Mediterranean, we propose not to put this off until the Greek calendar, and, as the first step, already beginning from July 1 of this year, to freeze the number of ships and the potential of the naval forces of both countries.
- Second. The Soviet Union and the United States could notify each other and all Mediterranean countries in time about the sending of naval ships and military exercises and invite observers to them.
- Third. The development by Mediterranean and other interested countries of principles and methods of ensuring the safety of lanes of intensive shipping, especially in international straits, will have every support.
- It would be useful now to put all these proposals together, bring them to a system, determine the rational sequence and order of their implementation. I believe this task could be taken up by a conference of representatives of Mediterranean states and other interested countries. We and not only we alone have expressed this idea in the past and it is acquiring growing relevance.

[redacted]

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naval fleet in the Mediterranean on a permanent basis" and kept it there only because of the "threatening" presence of the US 6th Fleet. Gorbachev also called for the reduction of armed forces in the region and the withdrawal of ships carrying nuclear weapons in the Mediterranean, reiterating earlier Soviet CBM proposals dating back to 1963. [redacted]

Gorbachev has made similar proposals for other naval regions. In his 29 July 1986 speech in Vladivostok and 23 July 1987 interview in the Indonesian newspaper *Merdeka*, he proposed talks on limiting naval activity—including exercises and maneuvers—and instituting CBMs in the Pacific and Indian Oceans. The initiative has since been refined to include restricting areas where nuclear-capable naval vessels operate,

curbing antisubmarine warfare operations, and freezing the number of nuclear-capable aircraft in the Asian portion of the USSR provided the United States does not deploy additional nuclear systems capable of reaching Soviet territory. [redacted]

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Gorbachev has also proposed limiting Nordic area naval activity. In his 1 October 1987 Murmansk speech, he called for limiting major naval exercises and activities, designating areas of the Atlantic in which antisubmarine warfare forces and systems would be banned, renouncing naval maneuvers in sea lanes and seasonal fishing areas, and preventing large naval concentrations in international straits. [redacted]

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Gorbachev thus far has not received a positive echo. According to the US Embassy in Belgrade, Gorbachev's proposal was ignored by Yugoslav media following his March visit. Reporting from the Embassy at Belgrade indicates a senior Yugoslav Foreign Affairs official told the US Deputy Chief of Mission (DCM) that Belgrade was not happy that Gorbachev used his visit to Belgrade as a platform for proposals, sprung at the last minute, that Belgrade believed were more the purview of the Nonaligned Movement (NAM) Mediterranean states. NATO countries have dismissed Gorbachev's call as mere propaganda. To date, there has been no Arab reaction to the Gorbachev proposal. [redacted]

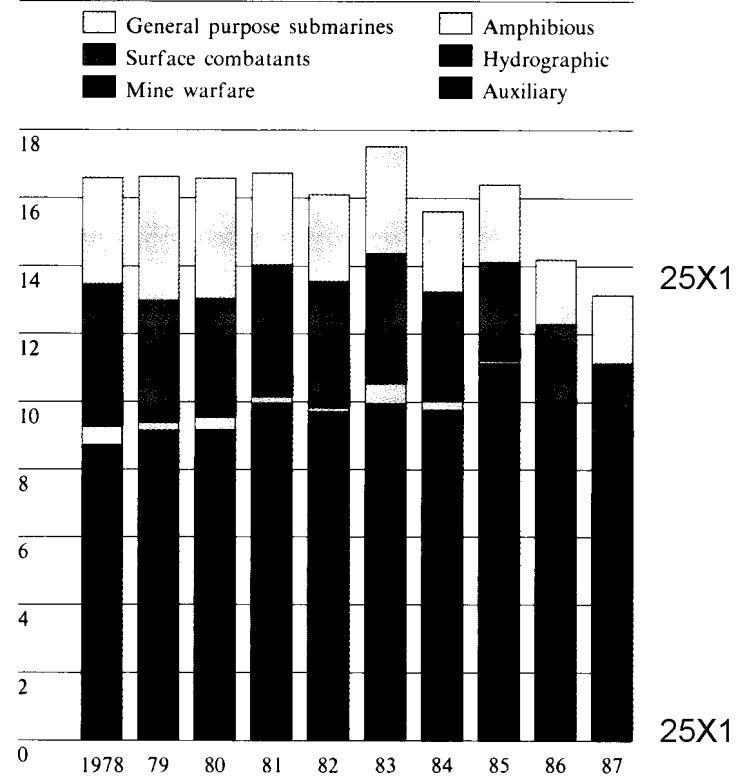
Decline in Naval Operations

On the face of it, Gorbachev's rhetoric is supported by a decline in Soviet ship strength in the Mediterranean—from 41 ships in 1986 to 36 in 1987. In the past two years, Soviet ship days in the Mediterranean—the presence of one ship away from home waters for one day—have also declined (see figure). This is apparently part of an overall decline in Soviet naval deployments worldwide. Soviet naval deployments overseas in 1987 declined by 4 percent compared with those in 1986, continuing a three-year downward trend since the high of 1984, with cutbacks in most major deployment areas. [redacted]

The decline is probably a response of the Soviet Navy to political pressure to save resources. There are indications that a decision was made in late 1985 to conserve resources, including fuel and reactor life. In January 1986, the newly appointed Fleet Admiral Chernavin wrote that "concern for economy and thrift is closely connected with maintenance and repair and with the assurances of reliable equipment operation." Moreover, in a July 1987 interview with *Krasnaya zvezda*, Admiral of the Fleet Smirnov said that "we do not yet have the ability to promptly repair all ships and vessels. Repair work often takes too long and the quality is not always satisfactory. And if one ship takes too long to repair, another is forced to take on additional tasks and consequently gets worn out more rapidly." [redacted]

Soviet Ship Days in the Mediterranean Sea, 1978-87

Thousands of days



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The emphasis on resource conservation is probably related to General Secretary Gorbachev's drive to improve efficiency of resource use. Since taking office, he has emphasized that both the civilian and military sectors will have to increase their output mainly through raising productivity, rather than by using resources. At the same time, by economizing on

resource use in military operations, Gorbachev may intend that additional support be provided to the industrial modernization program, which he has labeled a top priority. [redacted]

Expanding Port Access

Despite the decline in Soviet ship strength and Gorbachev's proposal for removing foreign fleets, Moscow has over the past year been expanding its port access in the Mediterranean. At present, the Soviets are enlarging their use of the Syrian port of Tartus, may be receiving port access to Alexandria, have slightly expanded their use of Yugoslav ports, and may be expanding naval access to the Libyan port of Tobruq. [redacted]

Tartus. A new agreement with Syria—probably concluded during the 16-27 October 1987 visit to Syria by Fleet Admiral Chernavin, Commander in Chief of the Soviet Navy—allows for expanded Soviet use of the port facilities of Tartus. The agreement, [redacted]

[redacted] allows Moscow to establish repair and maintenance facilities near Tartus in exchange for additional coastal defense equipment and the cancellation of part of Syria's military debt. A section of Tartus will become an exclusive Soviet onshore naval repair and maintenance facility, [redacted]

[redacted] Construction on the Soviet facility began in late 1987, [redacted]

[redacted] At present the Soviets use the base as a secure mooring for the depot ship that provides upkeep to the diesel submarines serving the Mediterranean. [redacted]

Alexandria. The Soviets may be reestablishing their access to the port of Alexandria. Cairo, [redacted]

[redacted] has agreed in principle to renew access for Soviet naval vessels—banned from Egyptian ports since 1976—to the port of Alexandria for repair and refueling. The US Consul General in Alexandria reports that the shipyard is in bad repair and that much work needs to be done before it can be used. Soviet technicians may have visited the port to assess its readiness: in July 1987 a Soviet newspaper mentioned their impending visit and added that Egypt had asked the USSR to help modernize the shipyard. [redacted]

Cairo may have discussed granting the Soviet Navy limited use of the Alexandria facility in return for Moscow's assistance in upgrading the shipyard. The Egyptians also might hope that opening their port would help them to eventually market their ship maintenance and repair services to the Soviets. [redacted]

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The Egyptians habitually move slowly in such matters, however, partly from their awareness of US concerns about the security implications of Soviet access to the port. Egyptian security officials also have concerns of their own and will attempt to monitor the activities of Soviet personnel and limit their mobility. [redacted]

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Acquisition of port and basing facilities in Alexandria in 1968 was important in enabling the Soviets to extend their naval presence into the Mediterranean and the Indian Ocean. Sadat closed Alexandria port to Soviet warships in 1976. The loss was painful for the Soviets, who were forced to alter their strategic naval planning, provision their ships from naval auxiliaries, and look elsewhere for ports in the region capable of resupplying and repairing Soviet vessels. [redacted]

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Tivat. Moscow has slightly expanded its use of the Yugoslav port of Tivat. In September 1987, Yugoslavia raised the limit on foreign warships that could be serviced in a Yugoslav port at any time from two to three, and since then three Soviet naval ships have been present in Tivat. [redacted]

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Moscow for years has pressed for greater access, but Belgrade's move will not significantly increase Soviet naval capabilities. The change in Yugoslav law will merely permit more Soviet technicians access to Tivat to support overhauls, bringing more work to the Yugoslav port. Adding the third ship to Tivat may have been Belgrade's way of easing Soviet pressure to increase naval access to other Yugoslav shipyards. [redacted]

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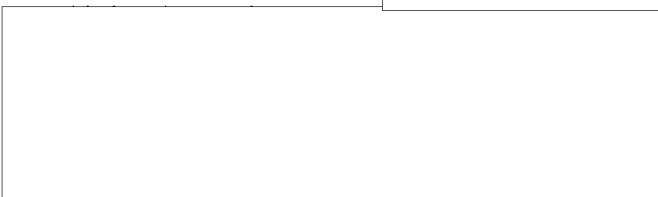
Tobruq. Moscow may also be expanding its use of the Libyan port of Tobruq. Since December 1987, imagery shows that Moscow has been constructing a new

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storage warehouse on a pier where Soviet combatants normally moor at the port of Tobruq. The warehouse possibly will be used at least to store naval supplies for the Mediterranean Squadron and may be designed ultimately to support expanded Soviet use of the port. The 14-19 March visit of Admiral Chernavin may signify renewed Soviet attempts to expand access to Libyan port facilities. To date, however, there has been no marked change in the Soviet naval presence in Libya. [redacted]

At present, it appears that the Soviets are largely motivated by the fact that their force of naval auxiliary ships is not overly large. Moscow appears to be pursuing access that will allow Soviet ships and submarines to be refueled and resupplied by shore-based facilities, with perhaps some minor repairs and maintenance being performed as well. In the future, Moscow could use expanded privileges to enlarge its naval presence in the region. [redacted]

Elsewhere in the Mediterranean, Moscow has continued its efforts to maintain and expand its presence in the region. [redacted] in February Moscow signed a new annual maintenance contract with the Manzil Ba Ruqaybah shipyard in Tunisia, despite the fact that the Tunisians demanded a steep price for repairs the Soviets deem inadequate. Moscow has also continued to support its allies through various naval exercises. [redacted]



[redacted] Prior to the Arab League summit in June 1988, the Soviets sent two surface combatants to Algiers, their first visit since 1985.



Outlook

In an attempt to bolster his arms control proposal, Gorbachev is likely to use the downturn in Soviet naval deployments as evidence that Moscow is sincere about demilitarizing the Mediterranean. He probably will also try to gloss over the negative reaction to this proposal by pointing to US unwillingness to consider

naval cutbacks as undermining the stability of the region. At the same time, Moscow will use US noncompliance with the 1 July freeze date as additional justification for a Soviet naval presence in the region. Gorbachev may cite the recent shutdown of the Iranian airbus by the United States as proof that the US naval presence is dangerous, not only in the Gulf but also the Mediterranean. [redacted]

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Gorbachev may call for a conference of major naval powers and other interested states within the UN Security Council to discuss Mediterranean arms control. Moscow is likely to tie its call in the UN for naval disarmament and expanded CBMs to its "Comprehensive System for Peace and International Security." [redacted]

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Meanwhile, Gorbachev probably will continue to push for expanded Soviet use of Mediterranean ports for various reasons:

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- Soviet shore facilities in Tobruq would enable the Soviets to refuel and resupply their ships in the central and western Mediterranean and reduce the requirement for deploying naval auxiliaries to the area. Even if Qadhafi were to grant them full basing rights, however, the Soviets would probably place some limits on their presence: they would be wary of making a major investment in a country run by a man that they know from experience is erratic and unreliable; they would have to weigh the possible adverse effects an expanded military presence would have on Qadhafi's neighbors—particularly Egypt with which Moscow is attempting to improve relations.

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- Although Moscow has adjusted to the loss of Alexandria by relying on auxiliary ships in the Mediterranean for repair and refueling needs, renewed access would ease the burden on its force, cutting its operating costs and boosting ship life. In addition, Moscow undoubtedly values the political tensions between Washington and Cairo that are likely to arise over renewed access to Alexandria.

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- The Soviets probably hope to secure an exclusive Soviet repair facility at the Syrian port of Tartus. Moscow probably hopes to use the Syrian port for more substantial maintenance and servicing of Soviet submarines. The Soviets would then be able to keep their submarines in the Mediterranean for longer periods of time and thus extend submarine operational life by eliminating the constant change-over of ships to and from Northern Fleet bases. The two floating piers along the breakwater will give the Soviets increased security and may allow for a larger Soviet naval presence in the port.
- Expanded use of Mediterranean ports would enhance Moscow's ability to use naval exercises—such as port visits and early warning support—as a political-military instrument. The Soviets hope that their naval activities will contribute to a close and congenial relationship with the local government that will permit Moscow to influence its foreign policy in directions favorable to the USSR.

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Mongolia: Winds of Change

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The Soviets seem to be making a concerted effort to convince interested third parties that they are willing to loosen their grip on Mongolia. They have withdrawn part of their forces from Mongolia, encouraged Ulaanbaatar to improve ties to Beijing, and even allowed the Mongolians to establish relations with the United States, after having vetoed any movement in that direction in the past. We probably will see further moves in the next year or so—such as additional troop cuts in Mongolia or the resumption of Sino-Mongolian party ties. We also expect the Soviets to intensify their pressure on Mongolia to put its economic house in order, thus encouraging the Batmonh regime to get on the *glasnost* and *perestroyka* bandwagon.

The Sino-Soviet-Mongolian Triangle

General Secretary Gorbachev's comment at Vladivostok in July 1986 that Soviet and Mongolian leaders were weighing a "considerable" reduction of the Soviet forces in Mongolia—part of a broader effort to improve relations with Beijing—evidently did not please his Mongolian allies. The Mongolians dutifully endorsed the troop withdrawal initiative, but without showing any enthusiasm for the idea, and public comments by Soviet and Mongolian leaders suggest that the two sides did not see eye to eye on the matter for several months. British diplomats in Moscow reported that there was a major debate in Ulaanbaatar over the question in the fall of 1986, with the "moderates" prevailing in the end, presumably because they were convinced by Moscow's argument that an easing of Sino-Soviet tensions justified the troop cuts.

We have only sketchy information on the attitudes of the top Mongolian leaders. We doubt that General Secretary Batmonh was very enthusiastic, however, in view of the fact that he did not publicly endorse the move until 19 January 1987, after Moscow had announced that it would be implemented that spring. We believe that former Foreign Minister Dugersuren, who was replaced in June 1988, opposed the plan;

Dugersuren told a press conference in early September 1986 that bilateral talks on the troop withdrawal had not begun, contradicting Gorbachev's remarks at Vladivostok. The replacement of Lieutenant General Purebdorj as Chief of the Mongolian General Staff in late 1986 or early 1987 suggests that he too may have been opposed; Purebdorj indicated in January 1987 that he saw the troop withdrawal as a unilateral move, not a joint decision.

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The announcement in January 1987 that one of the five Soviet divisions and a few smaller units would be withdrawn that spring may have been a scaled-down version of the original troop reduction plan. If so, we assume that reservations among the Soviet military and in Ulaanbaatar accounted for the adoption of a more modest plan.

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The withdrawal of one division and some smaller units in April-May 1987 reduced Soviet ground force levels in Mongolia by approximately one-fifth. Soviet and Mongolian ground forces together are still twice the size that they were 10 years ago, however, and the 39th Army in Mongolia remains the best equipped Soviet force in the Far East. Moscow also has supported a major expansion and upgrade of the Mongolian Army, allowing the Mongolians to pick up a greater share of their own defense, and has strengthened Soviet capabilities at other points along China's northern perimeter. These improvements reduce the

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impact of the recent withdrawal from Mongolia, which probably had little effect in any case on Soviet capabilities directed against China. [redacted]

• An agreement was signed in July 1987 renewing scientific and technological cooperation after a suspension of more than 20 years. [redacted]

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Nonetheless, the troop withdrawal was the first concrete step that the Soviets had taken to address any of Beijing's main security concerns, which the Chinese call "obstacles" to a full-fledged normalization of Sino-Soviet ties. Gorbachev probably hoped that Beijing would see the troop withdrawal as a sign that the USSR is willing to make concessions in order to reach a genuine improvement in Sino-Soviet relations. The Soviets also may have hoped that this move would convince Beijing to agree to talks on mutual force reductions along the Sino-Soviet border, which Gorbachev had also proposed at Vladivostok. The public Chinese response has minimized the significance of the partial troop withdrawal. [redacted]

The Batmonh regime has yet to achieve a full-fledged normalization of its relations with Beijing, however, and it is questionable how far the two sides can proceed, particularly on such questions as a resumption of formal party-to-party relations or a summit meeting, without corresponding progress in Sino-Soviet ties. [redacted]

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The Normalization of US-Mongolian Relations

The Soviets must have given approval to Mongolia's establishment of formal diplomatic relations with the United States on 27 January 1987—following off-again, on-again negotiations stretching over 15 years. They had torpedoed talks on the issue during the early 1970s and presumably still have reservations about letting the United States acquire a listening post" in Ulaanbaatar. But they probably calculated that the establishment of US-Mongolian relations would help convince Beijing that Moscow is willing to loosen its grip on Mongolia. Beijing—unlike Taipei—has no territorial claims on Mongolia, and it may welcome improved US-Mongolian ties as a means of lessening Ulaanbaatar's isolation and dependence on the USSR. [redacted]

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Ulaanbaatar's own relations with Beijing have improved substantially during the past two years:

- During a visit to Mongolia in August 1986 by Vice Foreign Minister Liu Shuqing, the two sides signed their first consular accord, putting an end to the Mongolian expulsion of Chinese residents from Ulaanbaatar that began in 1983.
- Bilateral trade increased to US \$6.25 million in 1987—almost 3.5 times the amount for 1986. Sino-Mongolian trade is still miniscule, however, compared with Mongolia's trade with the USSR, which amounted to US \$2.4 billion, at official exchange rates, in 1987.
- The two sides signed a boundary treaty in early June 1987.
- National People's Congress Vice Chairman Peng Chong made a "goodwill" visit to Mongolia in 1987—the first of its kind in over 20 years. Peng had a "cordial conversation" with party chief Batmonh, who noted that an improvement in Sino-Mongolian relations would help promote the interests of the socialist cause."

It is conceivable that the Soviet decision to approve a normalization of US-Mongolian ties was related to the Mongolians' acceptance of a partial troop withdrawal from their territory. [redacted]

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Perestroika, Mongolian Style

A recent article in *Pravda* by Mongolian Party Secretary Balhaajab admitted that Ulaanbaatar had made many mistakes in the past and spoke of an urgent need for radical reforms. He outlined five major tasks—eliminating conservative management, changing economic thinking, introducing economic accountability, allowing enterprises to operate independently, and putting an end to rigid centralized planning. He also implied that Moscow was putting increased pressure on the Mongolians to complete the creation of the material and technical base of “socialism” and to start developing sound policies that would bring their economy closer to the level of that of the USSR and its East European allies. [redacted]

Balhaajab noted approvingly that there had been a decrease in the amount of redtape and insensitivity toward human needs and an increase in *glasnost*. Recent observations of Western diplomats in Ulaanbaatar raise questions on the first point, but there appears to have been an increasingly frank discussion of economic problems in the Mongolian media. Batmonh set the tone at the MPRP Central Committee plenum in December 1987 by admitting that the country’s livestock population had decreased during the past 16 years and that managerial failures—not unfavorable natural conditions and weather—were the chief reasons for this stagnation in the main sector of the Mongolian economy. [redacted]

Other high-ranking Mongolian officials took up the cause earlier this year. The chief of the State Committee for Economic Planning complained somewhat ominously at a session of the Council of Ministers in mid-February that unnamed officials had allowed key aspects of the annual economic plan to be “wrecked” last year. “Wrecking” is a sensitive political charge in Ulaanbaatar as well as Moscow, where it still conjures up memories of the show trials for alleged “anti-Soviet” elements during the 1930s. [redacted]

The Soviet media have been even more outspoken about several problems in Soviet-Mongolian trade and other forms of economic cooperation during the past

six months. We believe that the following developments are of particular concern to Moscow:

- Trade between the two countries seems to have leveled off at 1.5 billion rubles (US \$2.4 billion, at official exchange rates) in the past two years, apparently due to failures on both sides, and thus is unlikely to reach the 1.92 billion rubles in 1990 called for in their current trade agreement.
- There seems to be considerable waste and mismanagement of Soviet economic assistance to Mongolia—which reportedly amounted to US \$1.1 billion in 1986 and \$1.2 billion in 1987. The Soviets seem to be rethinking the role of their civilian advisers in Mongolia—estimated by the Chinese to number 30,000 to 40,000. A Soviet consultant at a state farm recently complained that too many highly paid specialists were doing manual labor, such as repairing equipment and harvesting crops. [redacted]

The Soviets also may hope to use the ongoing “restructuring” within the Council of Mutual Economic Assistance (CEMA) to improve Mongolia’s economy.

[redacted] one of Moscow’s primary objectives is to bind the economies of Cuba, Mongolia, and Vietnam even closer to those of the CEMA members. CEMA planning officials have proposed a strengthening of scientific and technological cooperation, production, and trade ties to these countries in hopes of pushing them to make more efficient use of the economic assistance they receive from CEMA. [redacted]

In the meantime, Mongolian officials continue to talk about going their own way on major economic reforms. In a recent meeting with US diplomats, a Mongolian official rejected the word *perestroika* and described Mongolian reforms as “new improvements in the mechanism of economic direction.” In an earlier discussion, a Mongolian diplomat had explained that Ulaanbaatar was exploring the full implications of the Soviet reforms to make sure that they suited Mongolian circumstances. [redacted]

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The Mongolians, nevertheless, seem to be following Moscow's lead on the reform question. A Mongolian official recently told US diplomats that his government is crafting a new law that will allow enterprises to form joint ventures with companies from capitalist countries. This law reportedly will complement a draft law giving collectives and enterprises the right to set wages according to the performances of their workers, to establish contracts with similar enterprises in other socialist countries, to export their goods independently to those countries, and to set up foreign currency funds from their export earnings. The official also stated that since 1986, Mongolian enterprises have had the right to set their own production plans—as long as they conform with official guidelines on quantity, quality, and technological direction. All of these reforms bear a close resemblance to some new Soviet practices under Gorbachev. [redacted]

Future Prospects and Implications

Judging from Batmonh's record to date, we believe that economic matters will continue to occupy the regime's main attention for some time. There is a need for major changes, which would play well in Moscow, where the Soviets reportedly have been taking a tougher look at the burden of keeping "basket case" allies afloat. We believe the Soviets are particularly interested in improved livestock breeding (the Mongolian livestock population has actually decreased so much that it is smaller now than it was over 40 years ago), better use of Mongolian fuel and power supplies, and more rapid progress in developing the extractive industries that serve their own economy. [redacted]

Batmonh has been more careful to observe the constraints of collective leadership than was his predecessor during his last years in office, and at the same time—with Moscow's blessing—has encouraged a more open discussion of the nation's domestic problems and possible solutions. For its part, Moscow probably sees some benefit to expanding Ulaanbaatar's contacts with the outside world but would veto any move to loosen its ties to the Soviet camp; the CEMA reforms suggest that the Mongolian economy may be tied even more closely to the USSR and its allies in the coming years. [redacted]

It is not clear how much further the Soviets might be willing to go in reducing their military presence in Mongolia to help Sino-Soviet relations improve, but we believe the Soviets are more likely to withdraw substantial numbers of troops from Mongolia than from the Sino-Soviet border. With the number of Soviet civilian advisers in Mongolia—at all major enterprises, as well as at almost every office in Ulaanbaatar—we doubt that the Soviets view the presence of their troops as an essential means of keeping Mongolia firmly tied to the Soviet camp. But Moscow almost certainly will insist on a quid pro quo from Beijing—the signing of a nonaggression pact with Ulaanbaatar, as well as some force reductions on the Chinese side of the Sino-Mongolian border—before pulling all of its remaining forces out of Mongolia. [redacted]

In the meantime, Moscow probably will encourage the Batmonh regime to continue improving relations with Beijing. The key question, in our view, is whether the Soviets will let Mongolia follow the lead of the USSR's East European allies in reestablishing formal party-to-party ties and engaging in summit meetings with the Chinese without insisting that Sino-Soviet ties in those areas be restored first. The visit to Beijing in late May 1988 by Czechoslovak General Secretary Milos Jakes completed the cycle of visits by East European party leaders that began in late 1986, and the Soviets might believe that a Batmonh visit to Beijing would move the Chinese closer to accepting a resumption of similar Sino-Soviet exchanges. The Mongolians, for their part, probably would be happy to move ahead on such contacts with the Chinese, as long as they have Moscow's blessing in advance.

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Soviet Azerbaijan: "Youth Bulge" Sets Stage for Unrest

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The Youth Bulge Strains Azerbaijan's Economy

Research done by the CIA shows that the emergence of a "youth bulge" (20 percent or more of the population in the 15- to 24-year-old age group) often contributes to social instability.¹ Increased competition for opportunities in education, employment, and housing results in frustration and discontent among the young, frequently translating into unrest.

Azerbaijan has been experiencing a youth bulge for more than a decade (figure 1). Although population growth in the republic slowed in recent years, those born in the period of the highest birthrates, the 1960s, are reaching adulthood, straining the republic's economy. Growth of the young adult population of Azerbaijan has outstripped the state's ability to provide jobs, housing, and educational opportunities.

Jobs

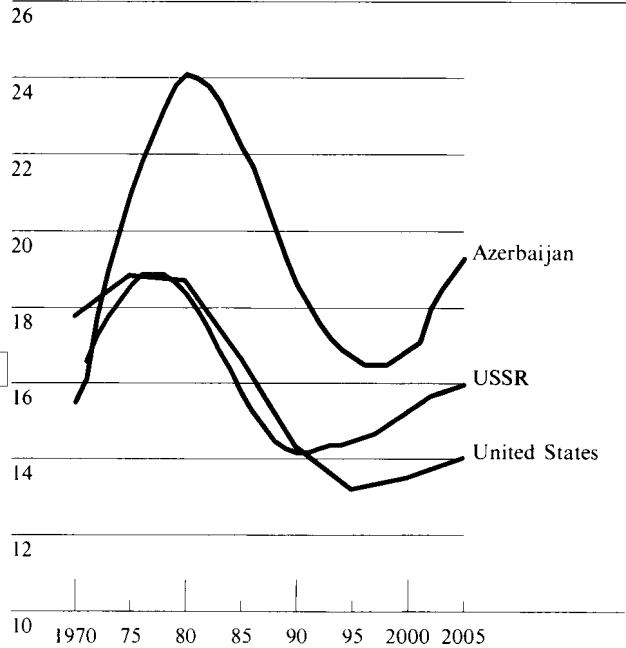
Azerbaijan has not been able to provide new jobs fast enough to employ its growing young adult population. In the period 1970-85, growth of the able-bodied population of the republic outpaced growth in socialized employment by a wide margin (figure 2). There are now more than 250,000 people in Azerbaijan who do not have jobs in the public sector,² according to a 1987 Soviet estimate. This represents 6.3 percent of the able-bodied population of Azerbaijan. Although many are women with young children, a growing number of young men are reportedly joining the ranks of those who are unemployed or make a living in the private sector.

Desirable jobs are hard to find in the rural and mountainous regions of Azerbaijan. In January 1988 the republic council of ministers censured local

² The public sector includes industry, construction, transport, communications, services, and socialized agriculture. The private sector consists of individual and cooperative activities in the areas of agriculture, construction, and consumer services.

Figure 1
Youth Cohorts, Ages 15-24

Percentage of the population



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governments of the Nagorno-Karabakh Autonomous Oblast and surrounding areas for failure to employ the "significant number" of jobless in the public sector or to attract them to state-sanctioned forms of private activity such as cooperatives. Criticism was also aimed at their failure to combat the growth of illegal private activity that has accompanied the rise in unemployment.

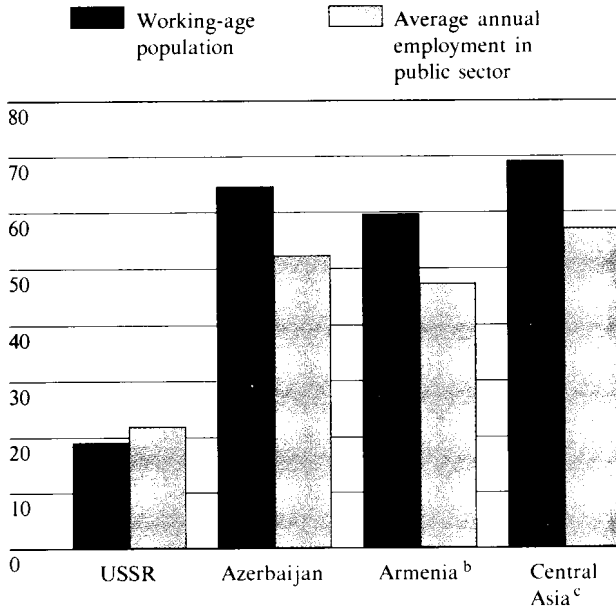
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Figure 2
USSR: Growth of Working-Age Populations
and Employment, 1970-85^a

Percent increase



^a Men, ages 16-59, and women, ages 16-54.

^b 1970-84.

^c Uzbekistan, Turkmenistan, Tajikistan, and Kirgiziya.

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A lack of desirable jobs in mountainous areas has prompted migration into the major cities of Azerbaijan. Young men, in particular, are attracted by the lure of relatively high-paying jobs in the petroleum industry, centered in Baku and Sumgait. According to the Soviet press, up to 10,000 people move into Baku each year. Many, however, end up in low-skill jobs that city residents will not take, while others drift into the private sector. [redacted]

Housing

Azerbaijan's major cities suffer from severe housing shortages. Because of the surplus of available labor, enterprises do not need to provide decent housing to attract workers. Managers often bring workers into cities on temporary residence permits and leave them

to find accommodations as best they can. According to a Soviet correspondent in Baku, "Crowds of recruited workers have surged into the city, and the outskirts and wasteland have been filled with home-made shacks that have grown up overnight . . . approximately 200,000 people live in these huts." The press describes similar slums in Sumgait as "depressingly squalid shantytown areas—temporary housing improvised from scraps of sheet metal, wooden panels, and rusty wire netting." According to *Moscow News*, most of those involved in recent violence in Sumgait came from the shantytowns. [redacted]

Education

Access to higher educational institutions (VUZs) has narrowed considerably as the student-age population of Azerbaijan has grown. Between 1970 and 1985, the share of secondary school graduates going on to higher education in the republic declined from 22.8 percent to 12.6 percent (figure 3). [redacted]

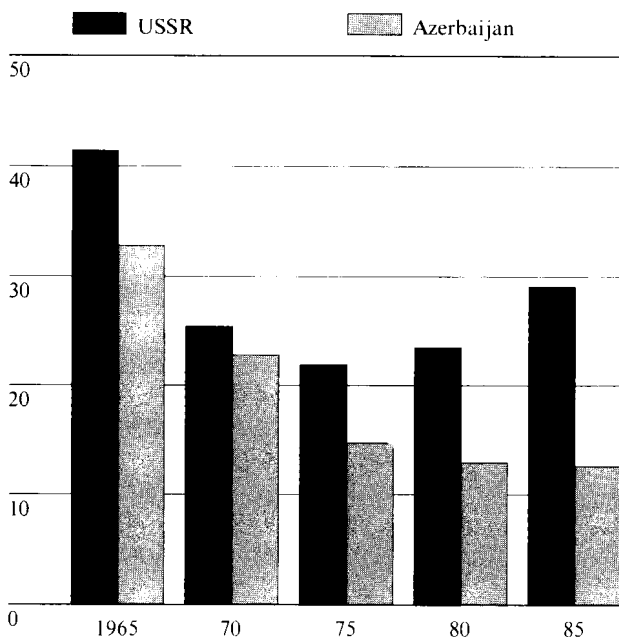
Moreover, because of mistakes in educational planning, many of those who do gain entry into VUZs will not find jobs in their field of study when they graduate. Thousands of VUZ graduates—mainly in the humanities—are out of work or underemployed. Last year a Soviet newspaper noted, "In Baku alone approximately 8,000 teachers are not employed in teaching, and 3,600 of them are not working at all. . . 1,500 cultural specialists and hundreds of doctors are registered as seeking employment." As a result of such problems, the decision has been made to cut admissions to secondary specialized and higher educational institutions in the republic by 4,000—a move which will further limit access to higher education. [redacted]

Rising Competition for Economic Opportunity Sparks Disputes

Increasing competition for economic opportunities is breeding resentment between Azeris and Armenians—two ethnic groups with a long history of animosity—who perceive discrimination in the allocation of jobs, housing, and access to higher education. The regional papers are full of complaints of unfairness, nepotism, and "clannishness." Hiring practices

Figure 3
USSR: Daytime Secondary Students Admitted to Higher Educational Institutions

Percent



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surfaced as an issue in recent ethnic disturbances there. One Soviet official admitted that the best jobs in the predominantly Armenian Nagorno-Karabakh Autonomous Oblast are reserved for Azeris.

Regional differences in living standards also generate charges of discrimination. The Armenian residents of Nagorno-Karabakh, along with some other Soviet observers, charge that there is economic discrimination against Nagorno-Karabakh by Azerbaijan authorities. They complain that local industry is underdeveloped, roads are neglected, and cultural facilities are almost nonexistent in the region. Indeed, the level of per capita investment in Nagorno-Karabakh is the lowest of any oblast in Azerbaijan.

Hostilities Rise to the Surface

The youth bulge created conditions in Azerbaijan conducive to social instability—overcrowding in the cities, frustrated expectations among the young, unemployment, and growing resentment between ethnic groups. Last year one Soviet commentator called Baku “a breeding ground for crime” and warned that work would have to be found quickly for unemployed young people to “avert tragedies.”

With the advent of Gorbachev’s policy of *glasnost*, young people began to give vent to long-simmering grievances. In early 1988 tensions between Armenians and Azeris erupted into demonstrations, strikes, and violence that was sparked by the demand that the Nagorno-Karabakh Autonomous Oblast—which has a predominantly Armenian population—be taken from Azerbaijan’s jurisdiction and reunited with Armenia. Reports from the region have noted the youth of those who took part in violent riots. According to the Soviet prosecutors, for example, “pogroms” against Armenians in Sumgait were carried out by youths with an average age of 20.

Moscow’s Shortsighted Approach

Putting Out Brushfires . . . When ethnic tensions erupt into violence, Moscow’s standard response is to “put out the brushfire” with a quick infusion of investment to the affected area. Moscow is now attempting to direct more resources to Nagorno-Karabakh for projects to benefit the young population, including increased construction of houses, recreational facilities, and schools. The resolution also instructs ministries to draw up plans for a number of large construction projects in the region that should employ thousands of people. According to *Moscow News*, additional funds were also made available to Sumgait. The city received five times its normal allotment for social needs in the second quarter of this year.

. . . While Dodging the Basic Issues. Recent decisions notwithstanding, rather than invest heavily in creating jobs in areas that are experiencing a youth bulge—the Caucasus, southern Kazakhstan, and Central Asia—

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Moscow has limped along with a 15-year-old policy of attempting to manage rapid growth of the labor force on the cheap by encouraging ministries to locate small-scale, labor-intensive shops and subsidiaries in towns and small cities near rural areas. This remedy is meant to bring jobs into areas with the greatest labor surplus and reduce migration to overburdened big cities. [redacted]

This strategy has largely failed, in part because of lack of cooperation from industry. Enterprises are reluctant to build facilities in the rural areas because they need skilled workers, who are found in the cities. The small shops that are constructed in rural towns pay low wages and provide little to their employees in terms of housing and services. Often local people shun these jobs in favor of private-sector activity. [redacted]

Moscow, moreover, has not yet promised any significant increase in state investments to bolster the economy and create more jobs in the southern tier. On the contrary, Gorbachev maintains that these regions should pull their own weight. He blames the problems of republics with labor surpluses on the corruption and mismanagement of local leaders and enjoins them to rely less on subsidies from the center. [redacted]

Altering Perestroika?

A key objective of Gorbachev's economic reforms is to curtail overmanning—apparently even in regions with a labor surplus. Indeed, during 1987 thousands of workers were reportedly laid off in transportation and in the oil industry in the Baku area. It makes little sense, however, to focus on creating high-productivity jobs and cutting staff in areas of labor surplus. One Soviet commentator took up this point early this year. Describing the Kabardino-Balkar Autonomous Republic, in the north Caucasus, he reported that more than 30,000 people were out of work there in 1985 and another 14,000 to 15,000 might be displaced as a result of *perestroika*.³ He argued that, "perhaps, while generally intensifying the national economy, it would be possible and even necessary to allow elements of extensive development in a number of regions in order to increase employment." [redacted]

³ The total population of the Kabardino-Balkar AO in 1983 was 708,000. [redacted]

The Potential for Unrest in Central Asia

Central Asia's social infrastructure is even less developed than that of Azerbaijan, its population is less educated, per capita investment is lower, and the growth of its young adult population more rapid. This suggests that tensions and the potential for ethnic conflict could increase in that region as well. [redacted]

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In the past a number of factors have mitigated problems related to the youth bulge and decreased the potential for unrest in Central Asia:

- *The local Slavic population clusters in the cities, while Asians tend to stay in the countryside. This reduces the competition between nationality groups for housing.*
- *Competition for jobs is reduced by an ethnic division of labor. Asians generally choose jobs in trade and agriculture—activities which give them easier access to the lucrative second economy, while the European settlers seek jobs in industry.*
- *Finally, an active policy of reverse discrimination in Central Asia has ensured that members of the indigenous nationalities would occupy a substantial share of leadership positions in VUZs, local government, and industry.* [redacted]

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The balance that has been established could be upset over the near term by Gorbachev's policies and in the longer term by increased migration to the cities. Gorbachev's initiatives have already produced layoffs, an end to reverse discrimination, and a crack-down on corruption in local governments. Moreover, population pressures in the countryside—shortages of water and arable land—may eventually generate increased movement to the cities, heightening inter-ethnic competition for jobs, housing, and other opportunities. At that point, the potential for unrest would greatly increase. If measures are not taken to significantly bolster the economy of the cities, social problems could be generated by even a modest acceleration in the rate of migration. [redacted]

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Outlook

Youth bulges in the southern republics will continue to plague Moscow for at least three to five years. While population growth in both Azerbaijan and Central Asia will remain high relative to the rest of the Soviet Union, the share of the population in the 15- to 24-year-old age group will dip in the 1990s. After the year 2000, another youth bulge will begin to emerge. [redacted]

Ongoing disturbances in the Caucasus and continuing population pressures in Central Asia may lead Moscow to adjust or rethink its policies in the southern tier (inset). The regime's options, however, are not attractive. Increasing investment in that region would mean diverting funds from important projects elsewhere in the country. Efforts to force outmigration could worsen ethnic tensions within the southern tier and bring ethnic conflicts into the northern industrial cities. Finally, allowing the private sector to soak up even more excess labor could produce results that would be unpalatable to Moscow, including greater income inequalities and an increase in illegal diversion of state resources to private activity. Moreover, this would put more of the region's economy beyond state control. [redacted]

Youth bulges in the south represent a serious challenge for Gorbachev as he attempts to implement *perestroyka*. His economic policies were aimed at the industrialized regions of the country, where labor—unlike that in the south—is scarce and well educated. Measures that encourage the substitution of capital for labor and elimination of manual jobs are ill suited to regions where labor is abundant, capital is relatively scarce, and skill levels are low. If firms and entrepreneurs are not given flexibility to adapt production processes and wages to local conditions, *perestroyka* may magnify the effects of the youth bulge by eliminating jobs. Unemployment would heighten the potential for more ethnic unrest and provide ammunition to opponents of reform. [redacted]

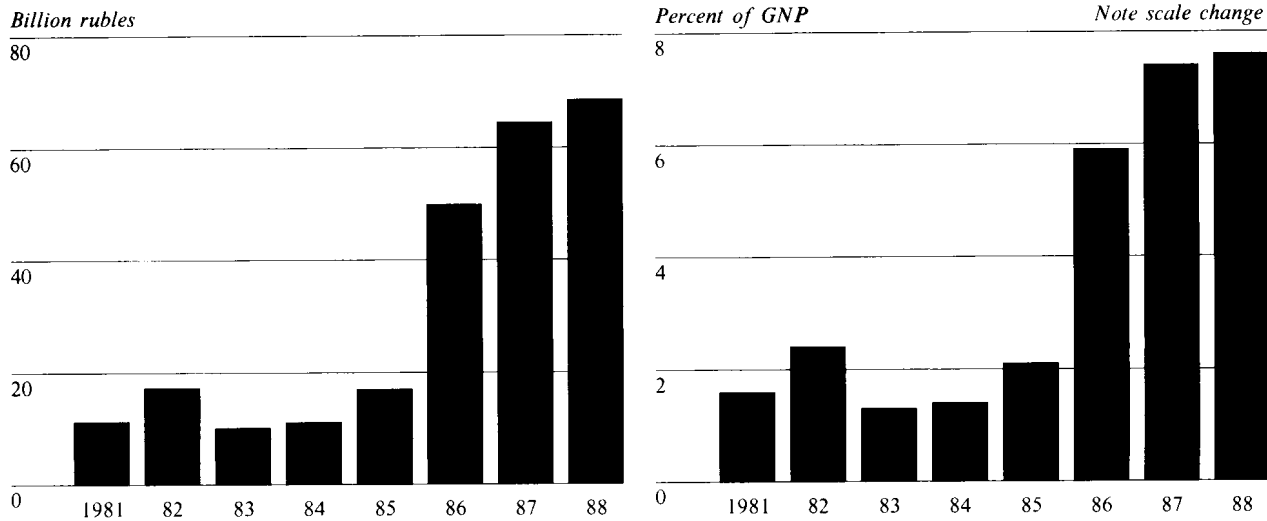
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Figure 1
USSR: Estimated State Budget Deficit, 1981-88



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**USSR: Sharply Higher
Budget Deficits
Threaten *Perestroyka***

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General Secretary Gorbachev acknowledged in his opening speech to the June party conference that the state budget has been in deficit for many years. That deficit has risen rapidly since Gorbachev came to power, as government spending has surged while tax revenues have remained almost unchanged. Moscow is financing the deficit through money creation, and inflationary effects are showing up in rising retail prices, shortages, and large increases in savings. Gorbachev's options for controlling the deficit—mainly curtailing spending—are politically unpalatable. Continued delay, however, could lead to inflation much worse than the Soviets have experienced in the post-war era.

the budget-busting implications of Gorbachev's investment push, since other budget commitments were not relaxed:

- Higher subsidies on food and livestock products have greatly increased the burden of this expenditure on the state budget. [redacted] state appropriations for the subsidy of food prices increased from 24 billion rubles in 1980 to 58 billion rubles in 1986. 25X1
- Perhaps reflecting the unevenness in weapons procurement cycles, defense expenditures have been increasing by about 3 billion rubles annually since 1985. 25X1
- Budget spending on social-cultural measures (education, health services, pensions) increased an average of 7.5 billion rubles per year during 1986 and 1987.
- While certainly unanticipated, the Chernobyl' disaster is estimated to have cost the state budget an extra 2 billion rubles annually during 1986 and 1987.

Budget Deficit Balloons Under Gorbachev

General Secretary Gorbachev's policy of greatly increased state spending on investment, coupled with the tax losses from his antialcohol campaign, has produced large budget deficits. Indeed, we estimate that the Soviet state budget deficit increased from 11 billion rubles in 1984 (1.4 percent of Soviet GNP) to 64 billion rubles in 1987 (7.4 percent of GNP) (figure 1). In contrast, the highest US Government (federal and state combined) budget deficit represented 3.5 percent of US GNP in fiscal year 1986.

Consequently, given the leadership's decision to push investment spending at all costs, total government spending rose by a record 30 billion rubles in 1986 and by another 18 billion rubles in 1987 (figure 2).

State Spending Surges . . .

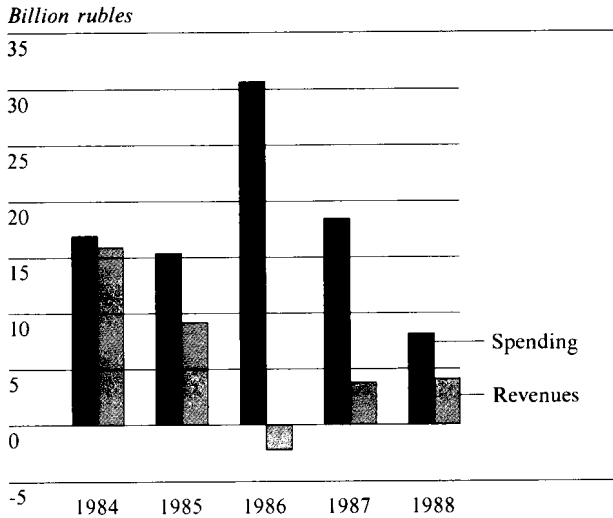
General Secretary Gorbachev assumed power in March 1985 in time to push for faster investment growth in the 12th Five-Year Plan (FYP), then being drafted. According to the FYP, budgetary outlays on investment were to increase a huge 10 percent in 1986, followed by much smaller average annual increases during the period 1987-90 (1.2 percent per year). Soviet planners were probably concerned about

. . . While Revenues Fall Short

Meanwhile, Soviet state revenues had to absorb a number of major impacts that held their growth during 1986 and 1987 to less than 5 billion rubles:

- Until 1985 the Soviets increasingly counted on a hefty indirect tax on retail alcohol sales to generate substantial budget revenues, but a major impact of the antialcohol campaign has been to cut this inflow by some 30 percent. 25X1

Figure 2
USSR: Annual Changes in State
Spending and Revenues, 1984-88



USSR: Sources of Finance of the *Billion rubles*
State Budget Deficit

	1984	1985	1986	1987	1988 ^a
Budget deficit	11.0	17.0	49.8	64.4	68.4
Known sources of finance					
Long-term borrowing (<i>bond sales</i>)	1.0	1.4	1.9	2.2	2.5
Short-term borrowing from the State Bank (<i>savings receipts</i>)	15.2	18.7	22.0	24.0	32.4
Residual					
Implied other short-term borrowing from the State Bank	-5.2	-3.1	25.9	38.2	33.5

^a Estimated.

[]

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- Planning mistakes, retooling, implementation of reforms, and establishment of a new quality control system disrupted industrial performance in 1987, slowing growth of revenue from enterprise profit taxes.
- The collapse in world oil prices in early 1986 led to a sharp fall in state revenue from foreign trade as hard currency oil exports fell from an average of \$15 billion during the period 1982-84 to just \$7 billion in 1986. Moreover, Moscow's decision to reduce heavily taxed consumer goods imports by 10 percent that year contributed substantially to the overall fall in state revenue from foreign trade. []

Money Creation Finances the Deficit

By necessity, the large deficits since 1986 have had to be met by large government borrowing from the State Bank (see table). This borrowing is equivalent to injecting money into the economy and therefore is highly inflationary (see inset). The money creation takes place when the government uses the loans to pay for pensions, teachers' salaries, military pay and allowances, and so on. While taxes and sales of long-term government bonds result in reductions of consumers' purchasing power, government loans from the State Bank effectively result in many more rubles chasing roughly the same amount of consumer goods and services. []

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According to the 1988 state budget, spending is to rise 8 billion rubles. Moreover, Minister of Finance Gos-
 tev said in October 1987 that foreign trade revenue and turnover tax receipts will be lower in 1988 than the levels planned for 1987. Consequently, we estimate a 1988 budget deficit of some 70 billion rubles.
 []

Impact on Prices, Shortages, and Savings

The impact of rapid monetary expansion since 1986 on consumers' purchasing power is confirmed by recent trends in a number of indicators:

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Monetary Expansion in the USSR

The Soviet State Bank (Gosbank) maintains and monitors the accounts of the government (Treasury), state enterprises and farms, and the population. The bank takes in cash from state retail stores and issues cash to state enterprises for payments of wages. The bank debits and credits the accounts of state enterprises and the Treasury to reflect the millions of noncash monetary transactions that take place throughout the economy. The bank attempts to keep cash balances segregated from noncash balances but is not always successful. []

Like any bank, Gosbank has assets and liabilities that must be in balance. Its assets largely consist of short-term loans to enterprises and also to the Treasury. Its liabilities largely consist of the deposits of the Treasury, enterprises, and the population. []

The Treasury takes in taxes and other revenues and deposits them in its account at Gosbank. Similarly, as the government makes expenditures, Gosbank debits the government's account and credits the accounts of the payees or, as in the case of pensions, pays out cash. []

When state revenues are less than expenditures, Gosbank makes short-term loans to the government

that are then credited to the government's account. The government can then pay its bills for procurement of weapons, pensions, education expenditures, and investment just as if the money came from tax revenues. Gosbank's balance sheet is undisturbed by this transaction: the increase in its short-term loans to the government (an asset) is exactly duplicated by an increase in liabilities (some combination of increased cash in circulation and deposits of enterprises and the population). Money has been created from thin air. []

*A portion of the short-term loans used by the govern-25X1
ment to cover its deficit is balanced by additions to the population's savings accounts. The population's willingness to increase its savings deposits reflects a mix of factors: interest rates of 2 to 3 percent per year, absence of consumer credit and hence the need 25X1
to save for big-ticket items such as cars, and lack of desirable consumer goods. In the short run, the population's willingness to set aside funds in savings accounts, rather than attempt to spend them, relieves some of the inflationary pressures of government deficit financing on the consumer sector. On the other hand, the population's accumulated savings accounts 25X1
represent an enormous purchasing power overhang over the longer term, because savings are subject to immediate withdrawal by their owners.* []

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- According to official statistics, average monthly wages increased 4 percent during January-March 1988, while they had increased 2 percent in the first quarter of 1987. Average wages were planned to reach 207 rubles per month by the end of 1988 but were already 210 rubles in March.
- Official Soviet data on prices in collective farm markets in 264 cities indicate prices rose by an estimated 9 percent in 1987 in contrast with an annual average increase of 2.2 percent during 1981-86. Food rationing increased in 1987, while severe shortages of clothing and personal care items have been singled out in the Soviet press.

- Soviet economists estimate that a large portion of personal savings reflects excess purchasing power. Soviet savers added record amounts to their savings deposits during 1985-87, when the average addition to savings per year doubled in comparison with the average during 1981-84. According to official first-quarter statistics, savings have continued to surge in 1988. []

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~~Secret~~**Soviets' Increased Recognition of the Problem**

General Secretary Gorbachev first noted stresses in the state budget in a speech to the party leadership in June 1987 in which he criticized the Brezhnev regime for relying on alcohol sales and oil exports as sources of revenue. Addressing the party leadership in February 1988, he observed that "the country's economy has come up against a very serious financial problem." Most recently, in his speech to the June party conference, Gorbachev for the first time indicated that a deficit exists:

For many years the outflow of the state budget went faster than its income. The budget deficit applies pressure on the market, undermines the stability of the ruble and money circulation, and gives birth to inflationary processes. [redacted]

Soviet economists also increasingly have noted the seriousness of the budget deficit and have linked it to the problem of inflation. Nikolay Shmelev has provided the most graphic discussion so far in the April 1988 issue of *Novyy mir*. He states:

Having handed over income from alcohol to the home distiller, the state has in the last two years seen a drastic exacerbation of the imbalance in the budget, in which the deficit is today covered by that supremely dangerous, unhealthy means—the mint. [redacted]

Moscow has taken a number of steps over the last couple of years to soak up excess purchasing power or to otherwise manage the resulting shortages of goods and services, including granting republic governments greater authority to implement rationing, issuing a new series of savings bonds and new forms of insurance, and encouraging the development of legal private businesses by individuals and small groups. These policies, however, do not address the budget deficit itself, and thus ignore the source of the purchasing power problem. [redacted]

Costs of Continued Inaction

Moscow probably cannot stay the present course because of the implications of increased inflation for the economy and for the reform process:

- Excess purchasing power of Soviet consumers does not directly affect the state sector, but will tend to expand the second economy where private initiative can respond to increased market demand. As a result, income will be redistributed from state workers to second-economy participants, and tools, raw materials, and finished goods will be diverted from the state sector to the second economy, often through theft.
- Rising prices in the second economy coupled with more empty shelves in state stores will cut into the living standards of citizens on fixed incomes, including pensioners, bureaucrats, and many state workers.
- Excess purchasing power will also undermine Gorbachev's wage reform, under which workers' wages and salaries are to increase about 30 percent and be tied closer to productivity. Inflation and shortages will make rubles worth less and the incentive effects of the wage reform will be blunted.
- Finally, as Gorbachev indicated in his June conference speech, price reform will not be effective if current inflationary pressures are not eased. [redacted]

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25X1**Gorbachev's Options**

The General Secretary needs to come to grips with the budget deficit. However, most of the options open to him—such as removing food subsidies, cutting defense spending, or increasing income taxes—impinge on the welfare of the population or key interest groups, such as the military, just at a time when he needs as much political support as he can garner. Only large-scale imports of highly taxed consumer goods and relaxing the antialcohol campaign offer Moscow opportunities to address the budget deficit

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without gouging an important interest group. Both steps are under discussion in Moscow:

- In early May, the Soviet central press called for a reassessment of the antialcohol campaign. A Soviet official told Embassy Moscow in June that the Kremlin has decided to increase production of spirits and extend store hours primarily because of the "huge" loss of revenue to the state.
- Importing large amounts of consumer goods also is under debate. Such imports could be easily financed through foreign borrowing. Moscow, however, has taken a conservative approach so far, preferring to reserve foreign loans for investment uses that expand domestic production capacity rather than for current consumption. The leadership is concerned that five or 10 years hence the Soviet Union would have to service a much larger debt with little to

show for it. In discussions with Soviet officials about this policy, a recent visitor to the USSR was told time and again, "We do not want to become another Poland." [redacted]

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Gorbachev must act quickly. Because the inflationary impact of the budget deficit exacerbates current consumer problems, the leadership is fighting an uphill battle in trying to improve the quality of life for average citizens and gain support for *perestroyka*. If the budget deficit is not brought down, it could lead to inflation much worse than the Soviets have experienced in the postwar era. [redacted]

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Perestroika and the Prospect of Unemployment

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The "Labor-Saving" Campaign

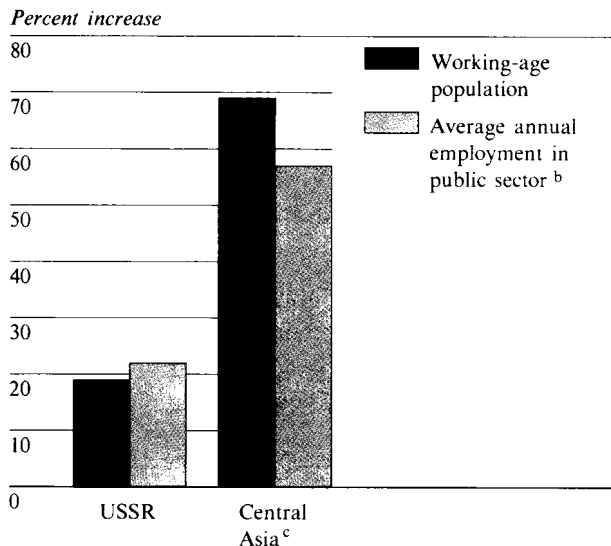
Gorbachev inherited a workplace characterized by job security at the expense of efficiency and innovation. Although full employment was held up by Soviet leaders as a great achievement of Socialism, the guaranteed job fostered a long-term erosion of discipline and a widespread attitude of indifference in the Soviet labor force. Moreover, in the 1980s a sharp slowdown in labor force growth in the industrialized regions of the USSR created an even tighter labor market in these regions, and greater job security for Soviet workers.

When Gorbachev came to power, he instituted a wage reform to induce enterprises to shed excess workers in order to tighten discipline and improve the allocation and utilization of scarce labor resources. Under the reform, enterprises are to introduce higher pay scales. Because no additional state funds are allotted, many enterprises will be compelled to lay off workers to finance wage increases for their remaining staff. Soviet economists believe that this measure will result in the release of 3 million workers from the productive sector of the economy before 1990.¹ Leonid Abalkin, director of the Soviet Institute of Economics, predicts that another 3 million workers will be dismissed during the period 1991-95 because of measures to reform the system. Moreover, he believes that mechanization and new technology could replace an additional 3-6 million workers. In total, these figures are equivalent to 6 to 8 percent of the current Soviet labor force. Retirements could take care of over half of the projected layoffs, however.

In addition to staff reductions in industry, Gorbachev is also urging sharp cutbacks in the bureaucracy. The staffs of branch ministries, for example, are to be cut by 50 percent by 1990. Sharp reductions are also planned for the state bureaucracy at republic and region levels. Altogether, according to TASS, 3 million managerial jobs are to be eliminated by 1990.

¹ The productive sphere includes roughly those sectors of the economy producing material goods rather than services.

Comparison of Growth of Working-Age Population and Employment, 1970-85^a



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^a Men, ages 16-59, and women, ages 16-54.
^b Includes industry, construction, transport, communications, services, and state and collective farms.
^c Uzbekistan, Turkmenistan, Tajikistan, and Kirgiziya.

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Despite the large scale of the projected displacements, the regime insists that jobs will be available for laid-off workers in new enterprises, in services and private cooperatives, and in "labor-deficit" areas in Siberia and the Far East. The socialist system, Gorbachev asserts, is equipped to handle the transfer of workers between sectors and regions without the creation of unemployment.

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Nevertheless, Soviet economists are beginning to openly discuss the possibility of unemployment. Nikolay Shmelev, for example, called the danger of losing a job, "a very good cure for laziness, drunkenness, and irresponsibility." He argues that unemployment already exists in the Soviet Union and estimates that "unemployment that results from people looking for or changing jobs is hardly less than 2 percent of the work force at any given time, and that figure is more like 3 percent if vagrants are taken into account." With a labor force of 150 million, these rates imply that at least 3 million Soviets are between jobs and 1.5 million more are chronically unemployed. [redacted]

The Campaign Begins To Bite

Although the press has reported large numbers of workers "released" in certain sectors of the economy, thus far *perestroyka* has probably not produced a significant increase in overall Soviet unemployment. For example, 280,000 workers were reported released in transportation and 101,800 in the petroleum industry since 1986, but such totals often include job slots that have been eliminated, retirements, and workers moved to other jobs. According to one Soviet survey up to 60 percent of workers released are found other positions at the same plant or factory. Moreover, because of efforts to bypass staff cuts, bureaucrats who have been released often end up in new administrative units with different titles. The Soviet trade union reports that a total of 1.5 million workers have been laid off and placed in new jobs in the last 18 months. [redacted]

There nevertheless are signs that the measures are beginning to have a negative impact on workers. Some workers who have been laid off are having trouble finding new jobs, and the possibility of unemployment is producing anxiety in the work force. In part to calm these fears, a party and government resolution was passed in January that spells out the rights of workers subject to layoffs, including the right to two months' notice before dismissal, and outlines a package of benefits including up to three months of severance pay and wage supplements during retraining. Previously, workers were entitled only to two weeks of severance pay. Finally, the resolution calls for major expansion and improvement of the job placement system and gives local governments the right to defer layoffs in exceptional cases. [redacted]

The Soviet trade unions—which usually function as tools of management—charge that some released workers are not being accorded rights and benefits guaranteed to them under the January law. A resolution passed by the All Union Council of Trade Unions on 4 July 1988 charged that some workers are receiving "callous" treatment. The resolution cited complaints that some enterprises fail to give the required two months' notice before laying off workers, dismiss workers without trade union approval, or fail to take appropriate measures to find alternative work for discharged workers. Numerous complaints were lodged against enterprises that dismiss workers and leave their management staffs untouched. The trade union also found "serious omissions" in retraining programs. Recent articles in the Soviet press, however, have blamed local trade unions themselves for failure to represent workers' interests. [redacted]

Letters in newspapers, [redacted] indicate a perception is growing among some Soviet citizens that the selection of workers to be laid off is handled unfairly. Ostensibly, layoffs are to result in the dismissal of the least skilled and least motivated workers. Workers complain, however, that enterprises use criteria other than skills and performance to determine who will be dismissed:

- Propensity to "rock the boat." Workers who are "argumentative, who express their opinions," are often the first fired. One worker protests that "mediocre workers and time-servers will remain while the active leaders might be made to leave."
- Age. According to one Soviet estimate up to 40 percent of workers already released from their jobs have gone on pension. Many nearing retirement age may also lose their jobs.
- Sex. The Soviet trade union recently noted that a substantial number of women are being laid off. In one research institute, the first fired were women whose husbands had secure jobs. An official of the Moscow placement bureau also observes that cuts affect women more often than men. [redacted]

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Moreover, regional economic and demographic disparities are raising concern among local leaders over the impact of labor-saving measures in the largely Muslim republics along the southern periphery of the Soviet Union. In these regions, rapid growth of the working-age population is already outpacing growth in employment (figure). According to one Soviet expert, in the Republic of Uzbekistan in 1986 growth of the able-bodied population was three times greater than growth in employment.² He believes that this trend will be exacerbated by measures such as wage reform and the campaign to mechanize unskilled jobs, and warns that this "will in the future unavoidably lead to the creation of new groups of jobless people." [redacted]

Anticipating Unemployment

Soviet leaders are bracing for problems as layoffs continue. According to a top Soviet labor official, "the restructuring of the economy is bound to cause some pain. . . . There will be some suffering and disappointment. The skills and level of training of redundant workers will not, of course, always match society's needs." Times will be especially hard for those who are unwilling or unable to retrain for new jobs or to move to different regions of the country. For workers unwilling to move from relatively comfortable cities like Moscow, and for those unwilling to learn a new trade, the job search may extend well beyond the three months during which a worker is entitled to unemployment compensation. Moreover, one Soviet economist maintains that one-fourth of laid-off workers are "unqualified" for other types of work. A top labor official admits "it is doubtful" that the current system of poorly staffed and under-equipped placement bureaus can forecast layoffs and areas where workers can be resettled. This will also slow the process of placing workers. [redacted]

If significant layoffs occur, more people are likely to fall into the ranks of the chronically unemployed. According to Soviet press reports, enterprises are now

² He reported that employment in the socialized sector grew by 0.95 percent between 1985 and 1986. In the same period the able-bodied population grew three times as fast, by 2.69 percent. This is a marked worsening of the employment situation compared with the period 1981-85, when the average annual growth rate was 2.65 for employment and 2.88 for the able-bodied population. [redacted]

hiring more selectively. Those with poor work records may be unable to find jobs. Local militias, responsible for placing former prisoners and vagrants, have already discovered that enterprises are no longer willing to hire such people. One Soviet journalist, writing on the previously taboo subject of the homeless, forecast that layoffs would "add to the army of vagrants." The journalist, speaking of the need to recognize the problem of chronic unemployment, noted that a Soviet official in the Ministry of Justice has said that the issue of making vagrancy no longer a criminal offense in the Soviet Union is now being discussed. [redacted] 25X1

Outlook

Despite reports of large-scale layoffs, it is unlikely that *perestroyka* will produce massive unemployment. In the northern industrialized regions of the Soviet Union, growth of the labor force is stagnant, and many enterprises, particularly those newly constructed, are desperately short of workers. Nevertheless, the match between available jobs and the skills and needs of those laid off will be far from perfect, leading to some increases in long-term unemployment, disruptions in isolated areas, and a painful period of readjustment for some workers. [redacted] 25X1

Unless Moscow eases up on the implementation of labor-saving measures in the Caucasus and Central Asia, however, layoffs will aggravate localized unemployment there and could increase the potential for unrest in the region. One Soviet expert warned that deterioration of the employment situation in the region would create "not only economic and social, but also political problems." [redacted] 25X1

Moscow seems determined to press the labor-saving campaign, even though resistance from enterprise managers and bureaucrats may slow its progress. As layoffs grow more widespread, however, workers' resentment of the loss of traditional job security is bound to increase, particularly if the populace sees little or no benefit from *perestroyka* in terms of improved living standards. There have already been [redacted] 25X1

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work stoppages and incidents of sabotage that may have been connected with discontent over proposed cutbacks, as well as with the increased demands that are being placed on workers under *perestroyka*. An escalation of labor unrest might lead Moscow to ease up, at least temporarily, on labor-saving measures.

[Redacted]

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The "State Orders" Debate Continues []

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A debate in the Presidium of the Council of Ministers last month revealed sharp differences over Gorbachev's effort to reduce mandatory output targets—so-called state orders—for Soviet enterprises in the last two years (1989-90) of the current five-year plan. Although the debate has not yet been resolved, the wide divergence of views that were expressed suggests that considerable effort will be required to bridge the gap between those who see such a reduction as essential for the increased enterprise autonomy promised by Gorbachev's reforms and those who fear that accompanying cutbacks in state-guaranteed supplies could produce what one participant described as "economic chaos." []

An Abused Concept

The "state orders" concept was adopted as part of the June 1987 planning reform as a way of distinguishing between the mandatory production requirements of the state, which were to be covered by state orders, and the production of other goods and services, which were to be less tightly controlled. The Presidium meeting, conducted by Premier Ryzhkov, was held to consider a proposed "interim provision" on compiling state orders for 1989-90 that was drafted in response to widespread complaints that the ministries had abused the concept in this year's plan and were continuing to dictate too many decisions to the enterprises. Many enterprises have complained that their ministries are still demanding 100 percent of their production, but the ministries have countered that Gosplan is still demanding production output at the prereform levels, which the ministries have claimed leaves them no recourse but to demand the same of their subordinate enterprises.¹ []

The offending ministers were pointedly excluded from the Presidium meeting. As one correspondent noted, it

¹ In one celebrated case, the "Uralmash" Production Association, once headed by Premier Ryzhkov, succeeded in having its high percentage of state orders reduced, despite loud objections from its parent ministry; many other enterprises, however, have been less successful. []

was "not without interest" that of the 23 speakers (excluding Premier Ryzhkov, who presided), "only one was a member of the government." The others included enterprise and association directors, kolkhoz and construction site managers, and economic experts. []

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Maslyukov's Proposal

Gosplan Chairman Maslyukov proposed that the following changes be made in state orders for the 1988 and 1989 annual plans:

- State orders would be determined by Gosplan—not the ministries.
- The current overall proportion of state orders (80 percent of industrial production) would be reduced by one-half to two-thirds.
- The number of centrally determined "success indicators" would be reduced to one-sixth the current level.
- Centralized planning of types of output—the assortment plan—would be reduced to one-fifteenth that of 1988.

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Maslyukov made it clear, however, that state orders would continue to cover 100 percent of production in certain sectors that were essential "to satisfy public needs," citing as examples consumer goods (with the exception of the Ministry of Light Industry) and the fuel and energy complex. []

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The Debate

Some speakers supported the effort to reduce the proportion of state orders or possibly even eliminate them. "Why not take the decisive step?" one participant asked. "Who are we afraid of—ourselves?" But a majority of the enterprise directors in the group expressed the fear that, without the supplies guaranteed by state orders, production at their enterprises would suffer. Many cited difficulties in finding suppliers when left to their own devices. For example, one

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director claimed that his production association had contacted about 600 enterprises and the result had been "hardly any orders at all." Most speakers advocated a go-slow approach, arguing that enterprises are still required to meet the high-growth targets of the current five-year plan, that the wholesale trade system intended to alleviate their supply problems is still in the early stages of implementation, and that reforms designed to give them more authority to set prices are still in the discussion stage. As one correspondent put it, many directors "cannot yet conceive of themselves in a milieu in which economic regulators operate." [redacted]

In general, the speakers' remarks reflected the underlying problems engendered by the incremental implementation of interdependent reforms and the decision to tackle two of the most fundamental problems—pricing and supply—only in the final stages. They also underscored some major flaws in the reforms' design, such as the attempt to reduce the ministries' authority in day-to-day economic management while continuing to hold them responsible for production, and the decision to introduce those reforms while attempting to adhere to taut five-year plan targets. [redacted]

Reform economist Leonid Abalkin decried those who used the current five-year plan targets as an excuse for inaction on the state orders problem, however, and said there was no reason to set control figures "as if the five-year plan will be fulfilled." Both he and the other leading reform economist, Abel Aganbegyan, conceded that the Gosplan proposal was a step in the right direction but argued for a more fundamental change that would redefine the mandatory state order as a "voluntary contract" between producers and consumers.² [redacted]

² To illustrate their point about the producer-consumer relationship, they said that it should not be Gosplan, but the Ministry of Health—the consumer—that placed orders for medical equipment with the Ministry of the Medical and Microbiological Industry [redacted]

The Golden Mean

In a nod to the economists, Ryzhkov noted that "we do not work with scientists enough" but concluded that "we acted correctly" in not immediately adopting a document to cover the 13th Five-Year Plan (1991-96) because so many of the participants were not yet ready for the model proposed by Aganbegyan and Abalkin. He instructed Maslyukov to consider the arguments presented at the meeting and submit an amended draft "in the near future." Ryzhkov's concluding remarks suggested that the document to emerge from that review would be a product of compromise. According to one account, he instructed those who were making the revisions to "select the golden mean from the different and at times even extreme viewpoints" and "enshrine that which would be most in line with the complex conditions of the transition period." [redacted]

Ryzhkov appeared undaunted by the prospect of resolving such differing views, however, and said that, in addition to completing the interim provision, work should be started on drafting a new state orders regulation for the 13th Five-Year Plan—a move that would formalize plans for further reductions in the percentage of state orders. Reformers are hoping that such reductions will be more palatable to enterprise managers in the next five-year plan, when other reforms designed to make the economy more "self-regulating" are scheduled to be in place.³ [redacted]

³ Although wholesale trade is not to be fully implemented until 1992, the State Committee for Material and Technical Supply has been instructed to accelerate the process. [redacted]

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Easing the Antialcohol Program: New Wine in Old Bottles [redacted]

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According to a Central Committee member, the Soviets have decided to ease up on the antialcohol campaign introduced by Gorbachev in May 1985. The campaign has caused widespread discontent among consumers and has disrupted trade, agriculture, and industry, particularly in Moldavia, Azerbaijan, and Georgia, where viticulture and winemaking are important economic activities. Moscow now appears to be allowing moderate increases in supplies of low alcohol beverages such as champagne and beer. The regime evidently intends to reduce retail prices for some alcoholic beverages and allow a small increase in the production of vodka and other hard liquor. However, supplies of low alcohol beverages are likely to remain scarce for some time because many former alcohol enterprises are now producing other goods. Furthermore, given the present price structure and the progress of retooling in the alcohol industry, producers of vodka and spirits will have far more incentive than producers of lighter products to increase output. [redacted]

Implementation of the 1985 Program: Going Off the Track

The antialcohol campaign created widespread discontent in part because the program from the start went beyond its original mandate (see inset).¹ The original decree called for a reduction in the output of vodka and spirits, fortified grape wines, and fruit and berry wines, all of which were used primarily for heavy drinking rather than for social occasions. Almost immediately, however, Ministry of Trade officials responded to the high-level pressure for sobriety with teetotaling zeal. They not only slashed orders for vodka, other liquors, and cheap fortified wines, but also began to cut purchases of champagne, table wine, and beer. These products had not been targeted for reduction under the antialcohol campaign, but the

[redacted]

The Antialcohol Program

The legislation on the antialcohol campaign was enacted in May 1985 and outlined a broad program of measures to curb alcohol abuse in Soviet society:

- *Beginning in 1986, the production of vodka and spirits was to be reduced annually, and the output of fruit and berry wines was to be halted entirely by 1988.*
- *The production of nonalcoholic beverages and fruit products was to increase substantially.*
- *The number of stores selling alcohol was reduced; sales hours were shortened.*
- *The penalties for public drunkenness and for illegal production and sales of alcohol were increased. Supervisors were to be held responsible for the sobriety of their employees at the workplace. In addition, an August 1985 decree raised the retail prices of vodka and spirits, cognac, fruit and berry wines, fortified wines, champagne, and beer. A second price increase occurred in the summer of 1986. At that time, the average price of a half liter of vodka reached 10 rubles.* [redacted]

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food industry cut production in response to the drop in demand by retail trade organizations (see table 1). This result contributed markedly to consumer dissatisfaction and social problems:

- The long queues to purchase even holiday staples such as champagne have caused considerable popular dissatisfaction.
- The acute shortage of alcoholic beverages at state stores and the very high prices have caused rapid growth in widespread moonshining and even legitimized the making and sale of moonshine in the view of otherwise law-abiding citizens.

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Table 1
USSR: Production of Alcoholic Beverages

	1984	1985	1986	1987
Vodka products (million dekaliters)	281.0	238.0	147.0	123.0
(annual growth, percent)		-15.3	-38.2	-16.3
Cognac (million dekaliters)	9.9	7.0	6.7	9.5
(annual growth, percent)		-29.3	-4.3	41.8
Fruit and berry wines (million dekaliters)	113.0	70.0	15.1	0.8
(annual growth, percent)		-38.0	-78.4	-94.7
Grape wine (million dekaliters)	340.0	265.0	141.0	147.0
(annual growth, percent)		-22.0	-46.7	4.3
Champagne (million bottles)	254.0	248.0	195.0	225.0
(annual growth, percent)		-2.4	-21.4	15.4
Beer (million dekaliters)	654.0	657.0	489.0	506.0
(annual growth, percent)		0.5	-25.6	3.5

Sources: *Narkhoz*, various years; *Tsifrah* 1987.

[Redacted]

- Nondrinkers have felt the consequences of the campaign because the diversion of sugar to moonshining led to shortages, hoarding, and rationing in many areas of the Soviet Union. [Redacted]

Retail trade organizations also suffered from the sharp drop in alcohol production and sales. Although the retail trade system was ordered to cut back alcohol sales, the plan for the gross value of retail sales, in which alcohol played a substantial role, was not revised. Officials announced optimistically that trade organizations were to meet their plans by increasing sales of other consumer goods. When this failed, the State Planning Committee (Gosplan) revised the sales plan to exclude alcohol. [Redacted]

Growing Financial Difficulties. The state turnover tax on alcohol sales provided substantial state budget revenues, but a major impact of the antialcohol campaign has been to cut this revenue source by an estimated 30 percent.² Gorbachev stated in February

1988 that the loss in revenue from the turnover tax on alcohol has exceeded 37 billion rubles in the three years since the campaign was introduced. In addition, in some areas, money usually spent on vodka remained out of circulation, and the shortage of circulating cash led to late payments of wages [Redacted]

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Large Economic Impact in Southern Republics. In the 1970s, Azerbaijan, Georgia, and Moldavia, which account for half of Soviet grape production, experienced a "wine boom." Many wineries, taking advantage of the high profits and abundant raw materials to produce large amounts of cheap low-quality wine, became known as "factory-millionaires." Azerbaijan's premier, addressing the Supreme Soviet in June 1986, reported that employment in viticulture and winemaking in Azerbaijan totaled 220,000 people (equivalent to one-fourth of all agricultural workers in the republic). Farmers also cultivated grapes on their private plots, where earnings from sales to the state often exceeded their wages.⁴ [Redacted]

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The sudden cutback in retail trade orders for wine caught the Caucasian republics and Moldavia by surprise. Wineries were unable to sell much of their production and were left with cisterns full of unprocessed wine material. Before the antialcohol campaign, Azerbaijan had funded half its 3-billion-ruble budget from winemaking revenues. A 13 February

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[Redacted]

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³ Using expected store receipts and planned wage expenditures by enterprises, Soviet financial authorities establish regional plans for circulating cash. When store receipts fall short of plan, local enterprises, which pay their employees in cash, are left without the wherewithal to make wage payments. [Redacted]

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⁴ Winemaking was often the only way to use grapes and other fruit crops. Because of the shortage of refrigerated storage space and unreliable agricultural transportation, fruit would often begin to ferment before it could be loaded. Farms also met ambitious procurement targets for grapes by harvesting them while they were unripe and heavy. These sour grapes were unsuitable for direct consumption, but they could be made into wine by using additional ethanol and sugar. Labor costs for harvesting could also be reduced—apples were simply shaken from the trees and bulldozed, then loaded. [Redacted]

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1988 *Pravda* article reported that half of Azerbaijan's wineries were in debt to the state bank, crippled by the cost of storing almost 2 billion rubles' worth of unused wine materials, which, under existing law, could not be discarded. Wineries have turned away additional grape supplies, but procurement agencies have been unable to pass this unexpected grape surplus to the Soviet consumer because its perishability caused the retail trade system to refuse to handle most of it. [redacted]

Adjusting Agricultural and Industrial Production: Uneven Progress

The regime's plan called for the southern republics to replant their vineyards with grape varieties suitable for consumption as fresh fruit or raisins, without a decline in total hectareage. Farmers, however, considered the procurement price for fresh grapes too low to compensate for the extra labor needed to ensure a fresh, ripe product. They began uprooting a substantial share of the vines, replanting many fields with other crops. According to the Soviet press, in Azerbaijan at least 35 percent of vineyards—covering 70,000 hectares—were uprooted during 1984-87. Only about 9 percent of this area has been replanted to table grapes. Vineyards declined by 70 thousand hectares. Private plantings dropped by half. A State Agroindustrial Committee (Gosagroprom) official stated in June 1988 that, for the USSR as a whole, grape hectareage has fallen by 200,000 hectares or 15 percent of the 1984 total. [redacted]

In industry, production of alcoholic beverages fell sharply in 1986, but production of several types of beverages increased in 1987, probably because alcohol production remains highly profitable. Officials from Gosplan and Gosagroprom were reprimanded in early 1987 for permitting overproduction of cognac, grape wine, vodka, and fruit wines, even though production of nearly all of these products remained substantially below 1984 levels. Champagne and beer output grew in 1987, evidently as part of an informal easing of the campaign. [redacted]

Many wineries found themselves unable to continue operation without state loans. Some began production of low-alcohol wines, and others began improving the

Enterprises Fend for Themselves

Soviet enterprise managers have sometimes been characterized as unwilling or unable to change, trained to depend on central authorities. The rapid conversion of many alcohol plants to other forms of production suggests, however, that enterprise managers can show real initiative, given sufficient freedom and incentive, and that enterprises themselves can make considerable changes on their own when freed from taut production plans. The Tula spirit association, for example, faced with the immediate shut-down of six of its 15 plants, turned to oblast planning officials for ideas for products that were needed locally. The enterprise decided to produce fruit juice concentrate and "health" beverages that required equipment similar to that already in use. The association acquired vats and pumps from a local chemical combine, used its own engineering personnel to adjust its equipment to handle new raw materials, and obtained an additional bottling line from a beverage plant. The whole retooling process cost a mere 114,000 rubles, and enterprise officials report that they are operating at a profit. [redacted]

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quality of wines produced. The industry stopped accepting grapes with a sugar content of less than 19 percent and increased output of vintage wines. [redacted]

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Some wineries have had to make a rapid conversion to other forms of production simply to hold their labor force and remain in operation. While planners in Moscow were slowly developing a complex program for retooling the alcohol industry as a whole, many individual enterprise managers made immediate decisions to change their production line. Without a master plan for retooling, they were free to find their own technical solutions and implement them rapidly. In addition, they enjoyed a luxury almost unknown to Soviet enterprises—the freedom to stop production completely and use their labor force to retool existing production lines (see inset). [redacted]

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In general, conversion of wineries and breweries to production of nonalcoholic products has been comparatively easy to accomplish because of the similarity of production and bottling processes. The most rapid success has been achieved by enterprises that have relied primarily on their own resources. In some cases, the retooling process has been slowed by the usual Soviet supply problems, such as shortages of equipment, packaging materials, and preservatives.⁵ [redacted]

Reports in the Soviet literature suggest that retooling in the vodka and spirit industry is moving more slowly than that in wineries and breweries. The USSR's approximately 350 raw spirits plants are located in rural areas close to their sources of raw materials. The distillery waste has been an important source of feed for local livestock. Under the antialcohol campaign, about 250 of these plants have had to find other production work, while neighboring farms have lost a feed source. As a result, many plants are scheduled for conversion to the production of feed using a process similar to distillation. This effort has been held up, however, by opposition from feed officials in Gosagroprom and by the irregular supply of raw materials from farms. [redacted]

The retooling of alcohol plants has brought about a substantial increase in the production of nonalcoholic beverages, such as canned fruit juice and mineral water, as resources and equipment have been transferred to their production (see table 2). Their output has increased by more than half since 1984, equivalent to almost 60 percent of the reduction in alcohol production. Former alcohol plants have also begun production of many food ingredients important to both consumers and industry, such as starch, mayonnaise, flavorings, aromatics, and *kvas* concentrate (a beverage similar to beer with a very low alcohol content). Traditional producers of beverages and other food products have also increased production, taking advantage of the sudden abundance of raw materials freed from alcohol production. [redacted]

⁵ Bureaucracy has also proved an obstacle. An enterprise cannot adopt a recipe for a new product or alter an existing one without the approval of central authorities, who are usually slow to respond to such requests. Finally, having produced a new product, enterprises have sometimes found that industry and the retail trade are unprepared to make use of or to sell it. [redacted]

Table 2
USSR: Production of Selected
Food Products

	1984	1985	1986	1987
Canned fruit juice (million standard cans)	2,447.0	2,748.0	4,171.0	4,500.0
(annual growth, percent)		12.3	51.8	7.9
Dried fruit (thousand tons)	57.0	61.2	78.6	NA
(annual growth, percent)		7.4	28.4	
Mineral water (million dekaliters)	131.0	130.0	148.0	158.0
(annual growth, percent)		-0.8	13.8	6.8
Nonalcoholic beverages (million dekaliters)	357.0	383.0	495.0	531.0
(annual growth, percent)		7.3	29.2	7.3

Sources: *Narkhoz*, various years; *Tsifrahk* 1987.

[redacted]

Outlook

Soviet statistics suggest that Moscow is easing the antialcohol campaign by increasing supplies of light alcohol products such as champagne and beer. In addition, the 1987 plan called for a 46-percent increase in cognac production. A Soviet source recently told an Embassy officer that the regime is also planning some increase in vodka production, a reduction in alcohol prices, increased sales outlets, and longer sales hours. At the same time, there will be tougher penalties for drunkenness, particularly at the workplace. Easing up on the antialcohol campaign would provide important benefits for the regime. Revisions that now seem likely would:

- Give Gorbachev an option to reduce the state budget deficit that would not involve reductions in defense spending, investment, or retail food price subsidies.
- Reduce consumer discontent by increasing availability of light alcoholic beverages but allow the regime to continue efforts to curb alcohol abuse by holding down production of vodka and spirits.

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- Strengthen the economies of southern republics, particularly Azerbaijan, where the regime is especially concerned about unemployment and popular discontent. [redacted]

Increasing output of low alcohol beverages, such as champagne and beer, will be a slow and uneven process. Despite an order to increase beer production in Moscow in 1988 by 20 percent, producers have been unable to meet this plan because of a commitment to manufacture nonalcoholic beverages and because of the shortage of bottles created by the increase in nonalcoholic beverage production. [redacted]

On the other hand, enterprises formerly producing vodka and raw spirits may find it easier to return to alcohol production because of the slow pace of retooling. After conversion, many were left with excess capacity and are paying fines for leaving these resources idle. They could easily resume production of alcohol without substantial disruptions. In addition, the high wholesale prices paid to enterprises give them great incentive to do so. [redacted]

Excess capacity in the vodka and spirit industry, together with the introduction of self-financing and the high profitability of alcohol production, means that keeping production of vodka and liquor down will require continued pressure from the leadership. Increased supplies of vodka and other liquors, however, are the best means for increasing budget revenues and undercutting moonshiners, creating a dilemma for the regime. In the end, if the Soviets are to achieve real success in curbing alcohol abuse, they need to concentrate on cutting demand rather than supply. Lowering demand requires a more sophisticated and thoroughgoing campaign to educate the population concerning the dangers of alcohol abuse, improved treatment of alcoholism, and great expansion of alternative leisure activities. [redacted]

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Soviet Attitudes Toward East German Repression of Domestic Dissent

Moscow has been generally supportive of East Germany's clampdown on internal dissent, despite its potentially negative impact on Gorbachev's image-building campaign in Western Europe and on Moscow's efforts to exploit improved intra-German relations in its overtures to Bonn. Soviet reactions to East German measures to counter domestic dissent suggest a continued willingness to allow Chairman Honecker a great deal of latitude in handling that problem.

The Soviets have maintained strong and unwavering public support for East Berlin's "legal right to maintain public order" in suppressing antiregime demonstrations. Following the wave of arrests that occurred during the January 1988 demonstrations honoring the founders of the Communist party of Germany, for example, *Pravda* noted:

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An unprejudiced observer cannot doubt the correctness of the steps taken by the GDR authorities, designed as they are to ensure security and public order on the basis of law just as in any other sovereign state. And it is more than obvious that the socialist gains of the GDR working people must be reliably protected against any encroachments no matter what form these take.

Moscow also sharply criticized Western accounts of the unrest as examples of media sensationalism and anti-GDR propaganda aimed at thwarting the improvement in East-West relations. Honecker's subsequent success in avoiding large-scale antiregime activities during the traditional May Day celebrations and on the 35th anniversary in June of the 1953 Berlin uprising—largely through enhanced security measures¹—has probably increased Kremlin confidence in Honecker's ability to maintain stability, at least in the near term.

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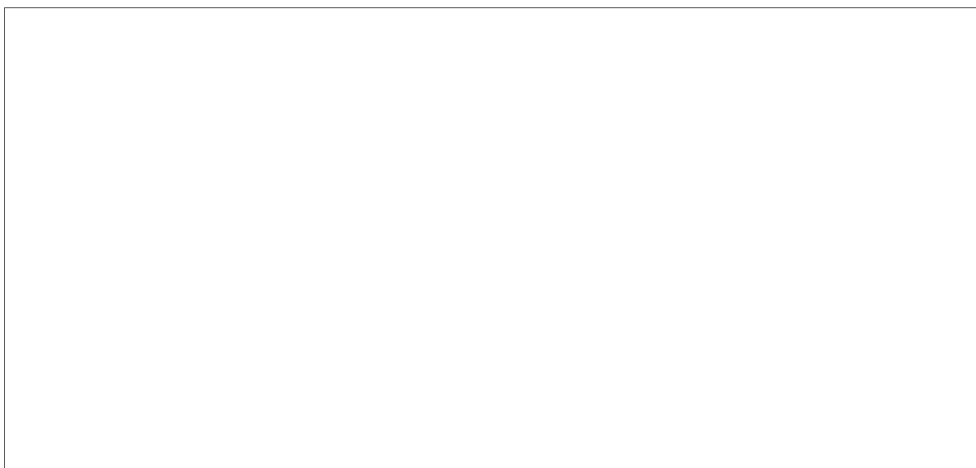
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¹ Regime measures have included the short-term detention of possible "troublemakers" before public events, a massive public security presence, the elicitation of church support for the discouragement of public "provocations," the suppression of various church publications, the sudden rerouting of vehicular and pedestrian traffic in locations where the possibility for disorder is the greatest, spot inspections of vehicles and documents, and the sponsoring of "counterevents," such as rock concerts, to draw young East Germans away from Western events held within earshot of the Berlin wall.

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**Financial Woes for Ferrous Metallurgy Enterprises**

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Financial problems, along with enterprise managers unaccustomed to operating on a self-financing basis, are hindering progress in implementing Gorbachev's reforms in several branches of the ferrous metals industry. A recent article in *Planovoye khozyaystvo* described the current situation:

Economic infantilism, together with dependency instead of creative exploration, have up to now been typical of many enterprise managers. At a number of plants, cost accounting within the production entity has hardly been restructured at all, and it has not been brought down to the individual worker.

The article also noted that the growing frequency of appeals to the ministry for help in dealing with financial difficulties—specifically, shortages of funds for investment—indicates managers have not adjusted to the new economic conditions and still face a legion of obstacles to rational economic decision making:

- The system of pricing remains ambiguous and does little to reduce waste or promote financial responsibility. According to the Soviet press, for example, rolled steel products that have been machined are less expensive than those that have not. Heat-treated metal is priced lower at certain plants than raw metal, and alloyed steels less than plain carbon steel.
- Many enterprises are unable to make the transition to cost accounting because a number of products are manufactured at a net loss. The majority of Soviet mining enterprises operate at a loss—primarily because of the deterioration of operating conditions for extraction of minerals—but are being forced to carry over old retooling plans into the 13th Five-Year Plan (1991-95) because of insufficient investment resources.

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- Nearly all metal products are produced to satisfy state orders, permitting little opportunity for enterprises to develop direct relations with customers. According to the chief of the ferrous metals ministry's economic planning administration, responding to state orders hampers the initiative and independence of enterprises, takes away their maneuverability, and makes it more difficult to obtain additional profit and augment incentive funds. 25X1

As a result, many enterprises simply do not earn enough profit to be self-supporting. To correct what the *Planovoye khozyaystvo* article called the "woeful financial conditions" at a number of key enterprises, the ministry's leadership is taking "emergency measures"—probably including subsidies—to help troubled plants. Without genuine price reforms and a decrease in the share of state orders for metal products, however, many enterprises will continue to appeal for ministry subsidies and emergency aid to stay afloat. 25X1

Ministry of Railways Shifts Blame for High Accident Rate 25X1

On 25 June 1988 a Deputy Minister of Railways, G. Kozlov, held a press conference to respond to growing media criticism of his ministry for at least one freight-train and four passenger-train accidents since the beginning of this year. One more passenger-train accident has occurred since the conference. He acknowledged that negligence on the part of railway workers has been a cause but insisted that other ministries are not supplying equipment to permit them to do their job safely. He singled out the Ministry of Instrument Making, Automation Equipment, and Control Systems for unwillingness to produce an effective automatic braking system and the Ministry of Heavy and Transport Machine Building for not producing enough rail inspection cars that can detect track problems.

To illustrate the magnitude of the problem, Kozlov supplied the following data on the state of the railroad system's capital stock: 25X1

- The average breakdown rate of railcars has doubled in the last 10 years.
- Almost the entire 300,000 kilometers of track on the rail network is dangerous because it fails to receive regular maintenance.
- One-fourth of the diesel locomotive fleet is obsolete, with an average age of 20 to 30 years.
- About 130,000 radios in locomotives and stations are obsolete and worn out.

The Ministry of Railways used the press conference to shift part of the blame away from itself and also to draw national attention to the growing need to upgrade and better maintain its capital stock. Unless the railroads get the equipment they need, the accident rate will continue to be high. Moreover, the ability of the railroads to carry freight will continue to suffer. The machine-building sector has not been supplying enough of the relatively new, powerful locomotives, for example, that are needed to pull heavier trains. The railroads have been relying mainly on increasing train weight to move more freight, but this strategy may have reached its limit. (The average train weight fell slightly in 1987, the first drop in more than 30 years.) Even if more of the locomotives were available, however, poor track conditions would eventually limit the weight that they can pull. 25X1

Viewpoint

This article was prepared by a contractor who relied exclusively on unclassified literature. It was not coordinated within this Agency. The views expressed are those of the author.

The Soviet Party Conference in Gorbachev's Political Strategy

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Heading into the Nineteenth Party Conference, M. S. Gorbachev's performance as General Secretary had given rise to serious questions. After three years, he had not achieved quantitative growth, improvements in quality were modest, modernization of industry was well behind schedule, and little progress had been made in reforming the command economy. The food situation had not improved, as numerous speakers complained at length. Several conference speakers, including Leonid Abalkin and Boris Yel'tsin, indicated Gorbachev had contributed to these failings. Ethnic conflict had flared up in the Caucasus, the Baltic republics, and Kazakhstan. Having aroused the country from lethargy, Gorbachev was making great demands on working people, bureaucrats, and powerful party officials, subjecting everyone to criticism from all sides and threatening their long-established privileges; yet he was conferring few material benefits to compensate them for their increased effort and reduced security. Gorbachev was not personally responsible for all his country's ills, of course, but his economic policies were not working and his bold encouragement of public opinion, while giving hope for the future, was in the near term having unsettling consequences.¹

¹ The poor consequences of many of Gorbachev's economic policies are generally acknowledged by him as well. In the West, however, a teflon shield has prevented their reflecting on his competence in economic affairs. That shield has been created by our admiration for his political courage and decency, respect for the magnitude of what he is trying to accomplish, and susceptibility to his rhetorical talents.

Previous Soviet leaders also had imposed failed policies on the country, including J. V. Stalin in the early 1930s and N. S. Khrushchev in the early 1960s, but they possessed substantial personal power with which to protect their positions. Khrushchev, even so, was in time overthrown. Gorbachev's personal power, unlike Khrushchev's and Stalin's, is not based on effective control of the party apparatus. His chief deputy in the Secretariat, responsible for day-to-day operations, Ye. K. Ligachev, heads an opposition faction. Other members include V. M. Chebrikov, head of the KGB; V. V. Shcherbitskiy, boss of the country's largest minority republic for 17 years; A. A. Gromyko, for a quarter century head of the Foreign Ministry; and M. S. Solomentsev, head of the Party Control Commission.

Despite his failure to achieve a strong power base that would enable him to control the Soviet political machinery, Gorbachev had succeeded in winning adoption of radical new programs. Appealing to the Politburo's consensual view that the country had been heading toward a crisis, he increasingly discredited the existing institutions, blaming them rather than individual leaders for the country's poor performance, and taking successive failures to turn things around as grounds for new, increasingly radical programs. But, although he won their adoption, his failure to dominate the party apparatus, and through it the regime's

other institutions, prevented these programs from being implemented as he intended. His decision in June 1987 to convene the Nineteenth Party Conference sought, among other things, to remedy this fundamental defect. In the intervening months before the party conference met, the glaring gap between policy adoption and implementation was further exposed. Employing the loophole of "state orders," the economic ministries subverted a critical new law that was designed to liberate the enterprise from detailed planning and continual ministerial intervention. The law on cooperatives, designed to upgrade the role of family contracts in agriculture and of small cooperatives in trade and consumer services was similarly obstructed by the territorial party apparatus. As the party conference drew close, its place in Gorbachev's political strategy loomed large.

Under the guise of political reform, Gorbachev sought a revolutionary rearrangement of political power, designed both to liberate the energies of Soviet society and to consolidate his personal control over the Soviet political system. His strategy aimed to reduce sharply the power of the party apparatus, not simply to capture it as previous general secretaries had done, and to emasculate the economic ministries. Much of their power over the economy was to be transferred to the productive enterprise itself, conferring on it the autonomy needed to operate in the market place: to acquire capital goods in wholesale trade; buy materials from those who produced them; and sell its products to those who consumed them. Territorial Soviets, having been revitalized, would direct local social and economic affairs. Which organs were to perform what remained of central direction of the economy was less clear, but the Council of Ministers and Gosplan presumably would continue to operate, under the tight control of a permanently operating legislature.²

Gorbachev also sought to acquire personal control of the regime's political machinery at the expense of the collective Politburo, the regime's supreme policy-making organ. Heretofore, a leader had achieved

² Khrushchev previously had gravely weakened the economic ministries for a time, not with the aim of liberating the production enterprise, but to transfer economic power to a strengthened party apparatus.

personal dominance by making himself master of the Politburo, purging it of opponents and subordinating its remaining members, while preserving its central place in the system. As his intention belatedly emerged at the conference itself, Gorbachev evidently meant to bypass the Politburo, transferring much of its power to a state office, Chairman of the newly established permanently operating Supreme Soviet.³ By acquiring far-reaching Constitutional authority while retaining the office of general secretary, Gorbachev would at once obtain the personal power needed to advance his social revolution and establish an institutional basis for the personal authority of his successors.⁴

The outline of Gorbachev's strategy as sketched here, although not always the means by which he sought to realize it, emerged gradually during 1987 and more particularly in the months and weeks before the party conference opened. Its general features (although not all its details) have strong support in the intellectual class, in much of the central press and the scientific community, among small ethnic minorities who hoped to improve their situation, and among some active and ambitious managers and administrators who sought to limit the party's interventions in their conduct of affairs. His support within the provincial party apparatus is limited and for his own part he seemed lacking in respect for its members' competence and capacity. Gorbachev's support among ordinary workers may initially have been strong, but it appeared to erode as his policies imposed sacrifices in the form of labor discipline and reduced alcohol consumption, while conferring few material benefits.

The forces opposed to Gorbachev's strategy, since they have failed to prevent adoption of Gorbachev's radical programs, have perhaps been underestimated

³ Otherwise, why not be satisfied with the existing office of Chairman of the Presidium of the Supreme Soviet, as Brezhnev, Andropov, and Chernenko were?

⁴ Gorbachev's quest for power is not motivated simply by personal ambition but is necessary to effect his social revolution. Nevertheless, his authoritarian tendencies have been manifest in imperious personal interventions at party meetings and even in diplomatic negotiations with his peers.

in the West. The main strength of the Ligachev faction is in the provincial party apparatus (including its press organs), as well as in the political police, and in the Ukrainian Republic. The economic ministries perhaps also look to it for support against Gorbachev's decentralizing policies, as do elements of the military concerned about the resource implications of the doctrine of "reasonable sufficiency." Russian nationalists among the creative intelligentsia may also favor Ligachev, who has cultivated their support.

The strength of the Ligachev faction was manifest in pre-conference maneuvering in the Yel'tsin affair (fall 1987), the *Sovietskaya rossiya* affair (early spring 1988), and, most particularly in the election of delegates to the party conference, which raised loud complaints among Gorbachev's supporters. Almost one-third of the 5,000 delegates were professional party workers, that is, members of the party apparatus, and their sentiments were expressed by many of the speakers, as well as in the audience's reactions.⁵ They supported attacks on journalists and the central press and on intellectuals, as well as praise of the party apparatus itself, of Russian achievements, and of the regime's historical accomplishments. Gorbachev himself found it expedient to temper his defense of the practice of *glasnost* by the central press, emphasizing repeatedly that it must become more responsible.⁶ His proposal that territorial party first secretaries head the corresponding local Soviets, which is inconsistent with his call for liberating the Soviets from party domination—presumably it was imposed on him by the Politburo—was supported in the speeches of party officials, but opposed by intellectuals among Gorbachev's advocates.

Gorbachev's inability to control the selection of conference delegates points up a vulnerability in his strategy. He evidently seeks to deprive the party apparatus of much of its power of appointment, fostering instead competitive, multicandidate elections to choose delegates, representatives, and officials. But if the party apparatus can manipulate these elections it may be able to impose its control even without the existing *nomenklatura* system.

⁵ Of this group, 827 were territorial party secretaries; 762 were party secretaries in production party organizations, all of whom presumably received at least part of their income from the party.

⁶ See his interventions in the speech by Ulyanov.

An extensive confrontation of the opposing Politburo factions at the party conference was obviated by restricting Politburo access to the podium. Only Gorbachev and Ligachev spoke, but they left little doubt of their mutual opposition by striking indirect blows at each other, employing esoteric communications and surrogates. Gorbachev used his report on the opening day to confirm widespread rumors linking Ligachev to the Andreyeva affair. After calling the audience's attention to Andreyeva's letter by speaking of people who attack *perestroyka* as "an erosion of principles," he focused his criticism on "someone's . . . personal ambitions," a reference not to the lowly Andreyeva but to Ligachev. Why only Ligachev among Politburo members was given the opportunity to comment on Gorbachev's report is not altogether clear, but it may have been thought necessary to allow him to respond to Gorbachev's indirect attack, or to Yel'tsin's explicit attack, or it may have followed from the fact, which Ligachev announced in his speech, that he is responsible for the Secretariat's day-to-day operations.

In any case, Ligachev used the occasion to respond not only to Yel'tsin, but to Gorbachev as well. He also restated his doubts about Gorbachev's version of *perestroyka*, and more particularly about Gorbachev's criticism of Stalin and his institutional heritage. As in the Andreyeva affair, he conveyed sharp criticism through a surrogate, saying, "I fully and wholly support" the speech of Bondarev in regard to Stalin. According to Yu. V. Bondarev, "there is no need for us to destroy our past to build our future," a fair description of what Gorbachev is in fact doing. Ligachev also linked Gorbachev to the excesses of *glasnost*.⁷

A central theme of Ligachev's speech was his defense of the party apparatus (particularly the central apparatus) against Gorbachev, who threatens its economic and *nomenklatura* powers, and against Yel'tsin and elements of the central press, who have sharply

⁷ Some newspaper editors took advantage of the "respect and trust shown them by the Central Committee and the general secretary of the Central Committee . . . to evade party control." These editors had pursued "enemies of *perestroyka*" (a sin of which Ligachev has been accused).

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criticized its privileges as well as its functions. Ligachev began this discussion by remarking that the Politburo had entrusted him with responsibility for day-to-day running of the Secretariat, which, of course, made him a natural defender of the interests of the party apparatus. He then asserted that the party apparatus exacts discipline, but in a comradely spirit; that the central party apparatus is in close contact with provincial officials and workers to provide necessary assistance; that its members work excessively hard; and that party officials are not overcompensated, as some have charged, but rather need improved benefits to prevent deterioration in their quality. "The party worker has one privilege—to be at the front, to fight for the party's policy, and to serve his people with faith and truth." Does such an admirable institution deserve to be weakened? Even while pursuing his quarrel with Gorbachev and his supporters, Ligachev denied that there was a split in the leadership or that there was any need to seek out enemies of *perestroyka*: "We are all deeply committed to the policy of *perestroyka*."

Finally, Ligachev defended his faction against an open attack by a previous speaker who appeared to have been prompted by Gorbachev. V. I. Melnikov insisted that figures who had actively supported the stagnation policy (under L. I. Brezhnev) could not remain in the central leadership. When Gorbachev intervened to ask Melnikov to name names, he responded: "Mikhail Sergeevich knows, I think," implying that Gorbachev could have anticipated who Melnikov's targets were.⁸ He then specified Solomentsev and Gromyko, along with two nonmembers of the Politburo. Ligachev's rejoinder was sharp and telling. There was a real danger in March 1985 that Gorbachev would not become general secretary.⁹ That he was chosen was due "to the firm stand taken by Solomentsev and Gromyko," (that is, Melnikov's villains), to whom Ligachev added Chebrikov, a third member of his faction, "and a large group of *obkom* first secretaries," that is, the very group that Gorbachev was trying to deprive of power. Besides offering a powerful defense of his faction against the Melnikov-Gorbachev attack, Ligachev's allusion to the anxious

days of March 1985 may have had further significance: since Gorbachev needed these men's support in order to come to power, if they were to turn against him he might lose that power. This implicit assessment of the strength of the opposing forces is doubtless biased, but it may be no further from the truth than the notion that Gorbachev is a secure and unchallenged leader.

As is apparent from this account, Gorbachev, despite his strong personal influence, did not control the party conference. Many speakers took advantage of *glasnost* to speak without fear, not simply toeing an official line but asserting their own views, which frequently diverged from Gorbachev's.¹⁰ The audience's response to the speakers also was not closely orchestrated and did not always favor Gorbachev's program. On the other hand, the decisions taken by the conference appeared to be largely under control, but by the entire Politburo, not by Gorbachev alone. Its resolutions were evidently drafted by the central apparatus, worked over somewhat in committee, and adopted hurriedly by the conference as a whole. Gorbachev once more won adoption of much of his program, including a statement that the *nomenklatura* approach to cadres is becoming obsolete and a call for reorganization of the party apparatus in the very near future.¹¹ Yet, having won adoption of these decisions to redistribute power, he may at present lack power to implement them.

The strength of Gorbachev's opposition as revealed at the party conference is a serious obstacle. His efforts to weaken the party apparatus doubtless will be resisted by the Ligachev faction, and, in any case, its determination to protect its institutional power and material privileges might be sufficient even without strong Politburo support. The economic bureaucracy, while more vulnerable, is similarly determined to

¹⁰ They were more insistent on the excesses of *glasnost* and the shortages of local consumer goods, for example, than Gorbachev would have preferred.

¹¹ The resolutions failed to specify the powers of the chairman of the Supreme Soviet that he had enumerated in his report, however.

⁸ This passage was omitted from the *Pravda* version.

⁹ This contradicts the view of many Western observers that Gorbachev was an agreed choice even before K. Chernenko died.

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defend itself. On the other hand, the thirst for power of those whom Gorbachev intends to benefit from the new regime is doubtful. Economic enterprises may find autonomy and its heavy responsibilities unwelcome, while the new permanently acting Supreme Soviet (and its projected office of Chairman) is as yet an imaginary body, possessed of a merely ghostly will.

The Ligachev-Gorbachev encounter at the party conference, while it revealed how acute their rivalry is, need not portend an imminent confrontation to decide who will prevail. Ligachev seeks to slow the pace of *perestroika* and to limit its objectives. He wants only to solve the USSR's current economic and social crisis, not to transform the country in accordance with some new vision of socialism.¹² Despite Gorbachev's allusion to his ambition, Ligachev does not appear currently to aim at replacing Gorbachev, recognizing perhaps that this is beyond his reach. In any case, his past behavior suggests that he is content to use his present position to limit and obstruct Gorbachev's program and does not seek supreme office to further a program of his own. Gorbachev, on the other hand, is not satisfied with the present arrangement, but he appears to lack the power to remove Ligachev and his followers. Skirmishing of the two factions may continue for some time.

Gorbachev's tenure as general secretary in the next several years will not depend solely on the country's economic and social performance. Only if economic and ethnic problems threaten to get out of control and endanger the regime, probably, would they threaten his position. On the other hand, the fate of his

¹² Bondarev, whose discussion of Stalin accorded with Ligachev's views, may have spelled out Ligachev's views on this matter also: "Could our *perestroika* be compared to an aircraft that has taken off without knowing if there is a landing strip at its destination?" There is "only one way we can ensure our invincibility: through agreement on the moral objective of *perestroika*: in other words, *perestroika* for the sake of material prosperity and spiritual unification of all." That is to say, agreement is lacking on Gorbachev's notion that *perestroika* should create a new form of socialism.

political strategy is likely to have a decisive bearing on his continuation in office. If Gorbachev accommodates the resistance he is encountering, his opponents may in turn be reconciled to his reformist eccentricities. But if he persists in trying to redistribute power—and especially if, despite his dubious prospects, he appears to be succeeding—his opponents might well be provoked into trying to unseat him.¹³

The long-term prospects of *perestroika* are of course uncertain. Competitive multicandidate elections and the deepening of *glasnost* could change the character of the regime, but the fragility of *glasnost* is apparent from the response to the Andreyeva letter, which had an immediate chilling effect on the press. Economic reform is unlikely to achieve the full extent of marketization that Gorbachev seeks, but the command economy was so inefficient that the reformed system that is evolving may be a substantial improvement. An opening of the Soviet system might result from a protracted struggle between Gorbachev and Ligachev, as the two factions reached out for support to informal associations, thus undermining the party's monopoly of political activity and widening the political arena. The most far-reaching transformation of the Soviet Union might result from Gorbachev's success in redistributing power, but the prospects for this, as noted previously, are poor. Alternatively, burgeoning demands on the present system from all quarters may exceed its capacity to accommodate them and could in time produce serious instability.

¹³ Despite the country's descent into economic and social crisis, Brezhnev held power until his death; Khrushchev, too, held power despite the manifest failure of most of his policies, until his unsettling reorganizations of the party apparatus turned it against him.

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