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The Soviet Economy at Midyear 1983— A Respite From the Economic Slowdown

An Intelligence Assessment

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The Soviet Economy at Midyear 1983— A Respite From the Economic Slowdown

Key Judgments

Information available as of 9 September 1983 was used in this report.

After several years of slow growth, the Soviet economy seems in the midst of an economic rebound in 1983. On the basis of statistics released by the Central Statistical Administration for the first seven months of 1983 and assuming strong agricultural performance, we estimate that GNP will grow by 3.5 to 4 percent—well above the 2-percent rate of growth in 1981 and 1982 and close to the 4-percent annual rate of growth implied by the 1981-85 plan

All major sectors of the economy are doing better in 1983 than in 1982:

- Agriculture is experiencing a recovery from several years of little or no growth. The best grain harvest in five years is likely, and total farm output may be greater than the previous high in 1978.
- Growth of industrial production is up and may be around 3 percent for the year. Although higher than growth rates achieved in the past few years in industry, this figure largely reflects a short-term recovery from the performance in early 1982, rather than a permanent upgrading of industrial efficiency.
- Transportation bottlenecks eased somewhat in the first six months of 1983 compared with the same period in 1982.
- Food supplies available to the consumer were greater in the first six months of 1983 than in the same period last year. The USSR stands a good chance of achieving a record high in per capita consumption of meat this year, but only if recent high levels of imports continue. Supplies of nonfood consumer goods, however, continue to grow slowly.
- Meanwhile, a higher rate of growth of state capital investment than planned in the first six months could signal a change in resource allocation policy by the Andropov regime.

Although a stronger economic showing this year could help Andropov politically, it does not foreshadow a higher rate of growth through the rest of the 1980s. Much of the improved economic performance—especially in sectors such as agriculture and transportation—is because of favorable weather conditions, while monthly industrial growth is already approaching the trend of the previous five years. The majority of factors constraining economic growth since the late 1970s—declining increments to the labor force, slowing growth of the capital stock, raw materials shortages, and transportation bottlenecks—will not go away in this decade. Nor are the systemic changes that could produce improvements in efficiency and productivity to offset these constraints likely to be made. Consequently, growth of GNP will likely average about 2 percent per year for the decade as a whole, compared with 3.2 percent for the 1970s. Swings in weather conditions could lead to fluctuations around this trend; this year's projected 3.5- to 4-percent GNP growth is a case in point

Contents

Table 1
USSR: Production of Major Crops

Million metric tons

	1978-82 Average	1981	1982	1983 [a]
Grain	185.7	158.0 [b]	165.0 [c]	210.0
Sunflower seed	5.0	4.6	5.3	5.5-6.0
Sugar beets	76.5	60.6	71.0	80.0-85.0
Vegetables	27.4	25.6	29.0	28.0-30.0
Potatoes	78.8	72.0	78.0	80.0-85.0
Cotton	9.3	9.6	9.3	9.5-10.0

[a] Estimated.
[b] Grain production in 1981 was unofficially reported at 158 million tons.
[c] The figure 165 million tons should be considered our best estimate of last year's Soviet grain harvest, but one that is subject to error. The maximum range of error in our grain crop estimate over the past four years has been ±8 percent, implying a crop in the range of 152 to 178 million tons. The US Department of Agriculture currently estimates last year's crop at a somewhat higher figure of 180 million tons.

The Soviet Economy at Midyear 1983— A Respite From the Economic Slowdown

Introduction

Soviet economic performance has picked up this year. This assessment (1) estimates the extent of the improvement, (2) assesses the reasons for it, and (3) discusses whether higher economic growth is likely to continue. The assessment also analyzes General Secretary Andropov's role in the upturn. The analysis is based largely on recently released industrial production statistics for January-July, half-yearly data for some other sectors of the economy, and preliminary CIA projections of Soviet agricultural output.[1]

Agriculture: A Strong Showing In 1983

A substantial recovery in agriculture appears to be in the cards this year. Total net farm output (defined as gross output less feed, seed, and waste) is expected to increase by about 7.5 percent, compared with slightly more than 3 percent in 1982 and almost no growth in 1981. Total production of farm products this year could be about 1 percent above the previous high in 1978. Barring a major deterioration in weather conditions, a grain harvest of 210 million tons is likely, the best since the 1978 record of 237 million tons. The outlook for other major crops—sunflower seed, sugar beets, vegetables, potatoes, and cotton—is also good, with production expected to exceed the average of recent years (table 1)

[1] The Soviets rarely falsify economic data. Instead, they omit, reclassify, redefine, and conceal data that they believe would violate national security or prove embarrassing. Although official economic data are flawed to some extent by padding and intentional distortions, such manipulations occur largely at the local level; reporting [redacted] indicate that flagrant, large-scale violations probably are held to a minimum because of the ability to cross-check data and the need for fairly accurate and reliable statistics by the planning apparatus. Even [redacted] who admitted to countless distortions of statistics by individual farms opined that countrywide agricultural data probably are fairly reliable

In the livestock sector, meat output from state and collective farms—which produce about two-thirds of total Soviet meat production—reached a record level during the first five months of 1983. A number of factors were at work:

- Record harvest procurements of some forage crops last fall increased feed supplies.
- A mild winter and early spring further bolstered feed supplies and increased feeding efficiency.
- Greater availability of high-protein feeds—particularly soybean meal and single-cell protein—has also raised the amount of product produced from a unit of feed.

With herd numbers at record levels, the stage is set for substantial growth in total meat production this year after four years of relative stagnation. Output could reach 16 million tons—5 percent above the 1979-82 average—if grain production reaches our current estimate, at least 20 million tons of grain are imported, and ample supplies of forage crops are available through the fall

Meanwhile, the Soviet Food Program continues to draw priority attention. A recent decree revised the incentives for organizations providing equipment, fertilizer, and other supplies and services to farms. Its primary purpose is to tie rewards of these organizations to growth in output and productivity on the farms they serve. Heavier penalties are prescribed for delivery of low-quality or unreliable products as well as for failure to complete work such as machinery repair in a timely fashion. The leadership recognizes that better cooperation between farms and the service and distribution sectors is essential to achieving the goals of the Food Program. The decree does not alter the dual subordination of service organizations to the RAPOs and to the parent ministry or state committee. Therefore, management problems are likely to continue.

Table 2
USSR: Civilian Industrial Production

Percent change [a]

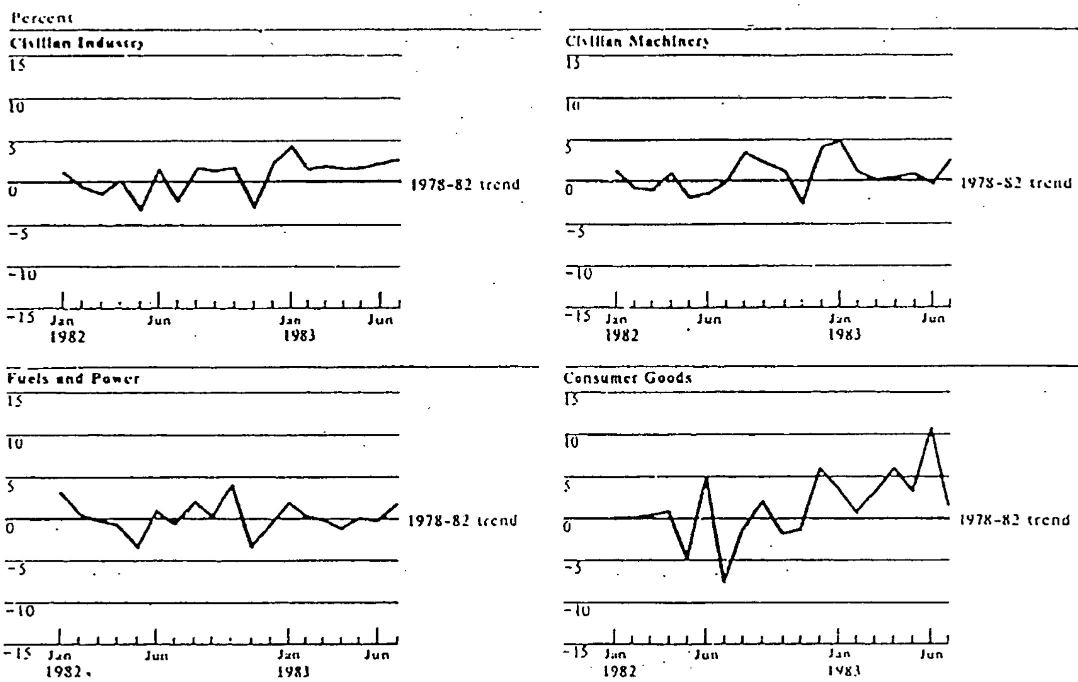
	1981	1982	January-July 1982	January-July 1983
Civilian industrial production	2.5	2.2	1.4	3.9
Industrial materials				
Ferrous metals	−0.1	−0.9	−1.4	2.6
Crude steel	0.3	−1.0	−2.0	2.0
Rolled steel	0.1	−0.9	−1.3	2.0
Steel pipe	0.5	−2.0	−1.9	4.8
Major fuels	2.0	3.0	3.0	2.6
Coal	−1.7	2.0	1.4	−0.5
Oil (including gas condensate)	0.9	0.6	0.6	1.1
Gas	6.9	7.7	8.3	7.3
Electric power	2.5	3.0	2.7	3.6
Chemicals	4.0	1.6	1.7	5.4
Wood, pulp, and paper products	2.3	1.4	1.7	3.1
Construction materials	1.4	−1.4	−2.5	3.2
Civilian machinery [b]	3.4	3.8	2.8	4.6
Food industry	1.9	2.8	0.9	6.6
Light industry	1.9	−0.1	0.4	1.6

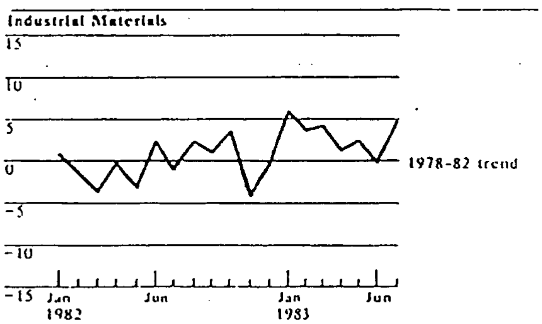
[a] Percent change in output between the comparable period of the preceding year and the given period.
[b] Excluding machinery produced only for military uses.

Industry: Some Improvement

After several years of steady decline, the growth of industrial production appears headed for a slight upturn this year. Industrial production was almost 4 percent higher in the first seven months of 1983 than in January-July 1982 (table 2). This rate of increase is misleading, however. It largely reflects a recovery from the poor performance at the beginning of 1982 that was partly caused by widespread power outages that idled a number of plants. In fact, production of several major industrial products such as cement, timber, sulfuric acid, iron ore, and crude steel, after declining in January-July 1982, only returned to or slightly exceeded the January-July 1981 levels in January-July 1983. Production of most industrial commodities actually began to pick up on a seasonally adjusted basis in mid-1982, so the overall contrast between the two years will not be so favorable by yearend as the gap between 1982 and 1983 production levels narrows (figure 1). We believe that

Figure 1
USSR: Deviation of Industrial Production From Recent Trend[a]





[a] The monthly production indexes are calculated from a smaller sample of commodities than those represented in the annual production indexes. The average trend rate of growth shown for 1978-82 in this figure will therefore differ from those based on full-year data. Nevertheless, we believe that the samples used in extending the monthly indexes are comprehensive enough to signal changes in growth rates over time, or—as in this figure—to compare performance before and after Andropov assumed power.

Table 3
USSR: Production of Major Fuels

	1981	1982	January-July 1982	January-July 1983	Planned 1983	Projected 1983
Oil (including gas condensate) *(million metric tons)*	609	612.5	355	359	619	618
Coal *(million metric tons)*	704	718	423	421	723	716-720
Gas *(billion cubic meters)*	465	501	287	308	529	530-535

growth in industrial production this year will be about 3 percent, compared with the 1981-82 average annual rate of growth of 2.4 percent.[2]

The rebound in industry probably owes much to better-than-normal winter and spring weather conditions, which permitted some rebuilding of fuel stocks. Most important, better weather appears to have eased transportation difficulties, thus relieving bottlenecks generally. Other factors that may have contributed to improved industrial performance include recent additions to capacity, notably in steel and chemicals, and the much publicized discipline campaign that, with some housecleaning in the managerial ranks, may have provided a one-time boost to productivity.

Monthly production of most industrial products returned to the trend of the last five years by April of this year. Particularly significant have been the results so far this year in key industrial sectors, particularly ferrous metals and chemicals. This reflects mainly a 5-percent increase in output of steel pipes, a 9-percent increase in production of mineral fertilizers, and an 8-percent rise in plastics compared with the level of the same period a year ago. Output of construction materials was also higher. Cement output, in particular, rebounded by 4 percent following a 4-percent drop in the first seven months of 1982.

[2] This pattern of growth is not new. Industrial growth showed a similar rebound in early 1980 after a dismal performance during severe weather in January and February 1979. The rise was short lived, however, as the increase in production for that year fell below 3 percent.

Civilian machinery—key to Moscow's program of industrial modernization—grew by 5 percent in January-July 1983 compared with 2.8 percent for the same period in 1982.

Energy Sector: Mainly on Target

Performance in the energy sector in the first seven months of 1983 was on balance favorable. Oil production increased by about 1 percent during January-July 1983 compared with the first seven months of 1982. Moscow most likely will meet or come close to its 1983 production goal of 619 million tons (see table 3).

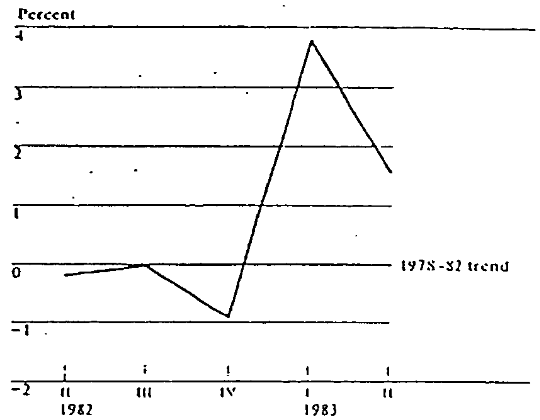
Production of natural gas continued to advance at a rapid pace, growing by more than 7 percent compared with January-July 1982. The USSR should have little difficulty in meeting the 1983 production target of 529 billion cubic meters. Pipelaying operations on the Urengoy-Uzhgorod natural gas export pipeline have been completed, and enough compressor stations should be operational in 1984 to handle Moscow's new gas export commitments to Western Europe

Coal production probably will fall short of the 1983 target of 723 million tons and could fall below last year's level. If so, it will mark the eighth consecutive year in which coal production has failed to reach the plan target. Output in the Soviets' largest coal-producing region (the Donets basin) is falling faster than Moscow anticipated, and production at many other basins is stagnating. Even at basins where output is increasing (such as Ekibastuz), expansion has been much less than planned.

Transportation: In Better Shape

Railroad bottlenecks, which have been a major factor in the decline in industrial growth in recent years, eased somewhat beginning in early 1983. The relatively mild weather experienced so far this year in the Soviet Union, together with the top-level attention given this sector by the Andropov regime, has resulted in a 3-percent increase in rail freight turnover in January-June 1983, compared with the first six months of 1982 (rail freight turnover fell by over 1 percent in 1982). A campaign to enlist industrial enterprises and other shippers in the repair of damaged freight cars also was instituted and may have helped some. A downturn in growth in the second quarter of 1983, however, suggests that the rail system is still in trouble (see figure 2). Freight car shortages and rolling stock maintenance problems continue to plague the system and may slow growth in the second half of the year and beyond.

Figure 2
USSR: Deviation of Railroad Freight Turnover From Recent Trend



The Consumer: More Quality Foods Available

Food shortages have eased this year, although not enough to permit relaxation of the informal rationing system for selected food items that has spread throughout the USSR since 1980 [ ] surveys of collective farm markets and state stores, for instance, have shown increased supplies of most foodstuffs. [ ] reporting also suggests that in many regions the food shortages prevalent since at least 1980 have become less severe

Record vegetable and fruit crops last year augmented by unprecedented imports of fresh fruit kept supplies up through last winter and this spring. Milk production in the socialized sector increased by a robust 10 percent during January-June relative to the first half of 1982. If the pickup continues, most of the decline in per capita consumption of milk in the last two years may be offset this year. Furthermore, if meat production in 1983 reaches 16 million tons and imports approach last year's near-record level, per capita intake would increase by about 2 kilograms or 3 percent over the high point of the late 1970s.

Meanwhile, Moscow is having trouble in providing adequate supplies of nonfood consumer goods. Retail trade turnover in real terms grew by 1.6 percent in the first six months of 1983 compared with the first half of 1982 (table 4). The low growth in retail sales, which dates from 1982, reflects in part the unavailability of some goods because of production problems in the light and consumer durables industries. The production of textiles, for example, has been hampered in recent years by shortages of some varieties of cotton. A possible further cutback in the sale of alcoholic beverages—which currently constitute nearly one-fifth of Soviet retail sales—may also be responsible.

Table 4 *Percent*

USSR: Change in Sales of Selected Products in State and Cooperative Enterprises [a]

	1981	1982	1st Half 1982	1st Half 1983
Total retail trade turnover	4.1	0	NA	1.6
Foodstuffs				
Meat and meat products	2.5	3.1	1.0	3.0
Whole milk products	1.4	2.8	1.0	6.0
Vegetables	1.0	4.0	−7.0	13.0
Fruit	2.0	12.0	22.0	8.0
Potatoes	−3.0	10.0	12.0	7.0
Nonfood items				
Clothes and textiles	6.0	0	2.0	1.0
Knitwear	5.7	3.2	6.0	−2.0
Leather footwear	9.0	1.0	4.0	−2.0
Refrigerators and freezers	2.0	−5.0	−2.0	−3.0
Passenger cars	18.6	0	4.0	2.0
Bicycles and mopeds	−0.9	6.4	6.0	−2.0
Soap and detergents	2.0	−5.0	−3.0	−4.0

[a] Constant prices.

Table 5 *Billion US $* [a]

USSR: Foreign Trade

	1980	1981	1982	Jan-Jun 1982	Jan-Jun 1983
Total					
Exports	76.4	79.4	87.0	41.7	45.4
Imports	68.5	73.2	77.7	42.4	43.7
Balance	7.9	6.3	9.4	−0.7	1.7
Communist countries					
Exports	4.4	43.4	47.0	23.0	26.0
Imports	36.3	37.1	42.4	22.7	24.1
Balance	5.1	6.3	4.5	0.3	1.9
Developed West					
Exports	24.5	23.9	25.9	12.7	12.4
Imports	24.2	25.2	26.0	14.6	14.5
Balance	0.3	−1.3	−0.1	−2.0	−2.1
LDCs					
Exports [b]	10.5	12.1	14.2	6.1	6.9
Imports	7.9	10.8	9.2	4.9	5.1
Balance	2.6	1.3	5.0	1.3	1.8

[a] The following ruble/dollar exchange rates were used: 1980—1.540, 1981—1.391, 1982—1.377, Jan-Jun 1982—1.395, Jan-Jun 1983—1.383.

[b] Includes sales of military equipment.

Such sales declined by 4 percent last year. Imports of consumer goods, which account for about one-seventh of total Soviet retail sales, also declined in 1982 and may have fallen in the first six months of 1983 as well.

Foreign Trade

The Soviet balance on merchandise trade moved from a $700 million (500 million rubles) deficit in the first half of 1982 to a $1.7 billion (1.2 billion rubles) surplus in the first half of 1983, as imports grew at about a third of the rate of exports—3 and 9 percent, respectively—in nominal terms (table 5). Most of the rise in the value of both exports and imports resulted from increased trade with Communist countries. Trade with the LDCs accounted for all the remaining growth in both exports and imports. In real terms, we estimate growth at roughly 1 percent for imports and 5 percent for exports.

The USSR's success during 1982 in reducing the net outflow of merchandise to the Communist countries was reversed, at least temporarily, in the first half of 1983. Exports to these countries rose by roughly 5 percent in real terms, while growth of real imports from Communist countries slowed considerably in January-June to 2 percent. This reversal may subside somewhat in the second half of the year. We believe

Table 6
USSR: Hard Currency
Merchandise Trade

Billion US $

	1980	1981	1982	Jan-Jun	
				1982	1983 [a]
Exports	23.6	23.8	26.5	13.5	13.6
Imports	26.1	27.8	27.5	15.7	15.8
Balance	−2.5	−4.0	−1.0	−2.2	−2.2

[a] Estimate.

export growth will slow as the USSR holds down deliveries to Communist countries. Total import growth could pick up as the USSR presses these countries to step up their deliveries.

The USSR's hard currency position—which had turned around in 1982 after deteriorating sharply in 1981—showed little change in the first half of 1983 (table 6). The estimated $2.2 billion hard currency merchandise trade deficit equaled that of the first half of 1982. In real terms, exports to the developed West rose by an estimated 3 to 4 percent, despite a probable drop in the volume of oil sales. We believe it likely that the volume of oil exports to the hard currency Organization for Economic Cooperation and Development (OECD) countries in the first half of 1983 was somewhat below the 1.3 million b/d level of the first half of 1982. Because oil prices were down some 8 percent during January-June 1983, the value of oil exports to OECD countries may have been 10 percent lower in the first half of 1983 compared with the first half of 1982. Exports of nonoil commodities made up for the possible decline in the volume of oil exports and appear to have increased substantially in both volume and value. On the import side, the USSR was successful in holding down real import growth to 1 percent. A roughly 20-percent drop in the volume of grain purchases was more than offset by increased purchases of pipe, machinery, and equipment and of Libyan oil for resale to Soviet customers in the West.

Net liabilities to commercial banks, meanwhile, dropped slightly in the first quarter of 1983 and may not have changed much in the second quarter. Debt outstanding on credits backed by Western governments probably increased somewhat as imports of machinery and equipment for the pipeline continued. By the end of June, total net hard currency debt probably stood at about the yearend 1982 level of $10 billion.

The current merchandise trade surplus could deteriorate in the second half of the year. We believe total export growth may slow as the USSR holds down deliveries to Communist countries reflecting the Soviet policy of reducing the surplus in trade to Eastern Europe. Oil exports to the West will continue to stagnate as growth of domestic production slows. Total imports, on the other hand, may pick up if Communist countries are able to step up their deliveries. Imports from non-Communist countries probably will continue at about the 1982 level as a probable reduction in grain purchases is offset by continued increases in machinery and equipment imports.

The hard currency merchandise trade deficit for 1983 may be slightly higher than the $1 billion in 1982 as both exports and imports stagnate. Although deliveries of major weapon systems to the hard currency LDCs probably will fall below last year's record high of $5.9 billion, net outlays on invisibles, credits extended, and other items probably will not exceed the $3.6 billion level of 1982. Thus, the Soviets probably will be able to hold borrowing down through the end of the year

Investment: Higher Than Plan

State capital investment—which makes up about 90 percent of total capital investment—increased by 6 percent in January-June 1983 compared with the first half of 1982. The acceleration in investment has been made possible by increased availability of investment goods—machinery and equipment and construction materials. Some of the growth in investment is also the result of an increase in net imports of machinery and equipment in 1982 that are just now being assimilated into Soviet industry. Imports of machinery jumped 37 percent in 1982. If the present

Table 7 *Average annual percent*
USSR: Capital Investment Growth

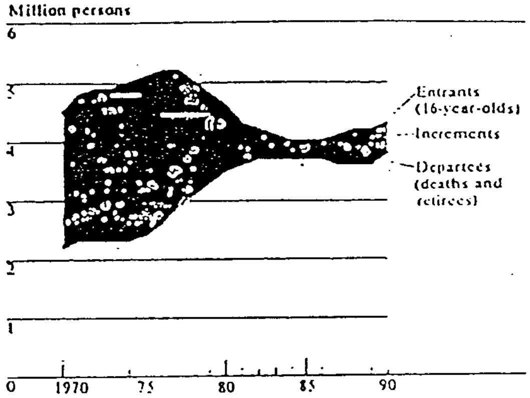
	1976-80	1981	1982	1st-Half 1982	1st-Half 1983
Total capital investment	3.4	3.8	2.0	NA	NA
State capital investment	3.7	4.2	2.2	2.2	6

rate of investment is sustained for the remainder of the year, total investment growth could exceed 4 percent—markedly higher than the rates achieved during the first two years of the 1981-85 Plan period, as shown in the table above

The increase in total investment targeted for 1981-85—an average of less than 2 percent per year—is the lowest in the post–World War II era. Consequently, the goals for growth in GNP implied by the 1981-85 Plan depend on substantial increases in productivity. But the assumption that higher productivity and acceptable rates of economic growth are compatible with reduced growth in investment has been publicly challenged in the USSR for at least two years, notably by prominent economists. The gist of their argument is that capital equipment, particularly machinery, is the principal instrument by which productivity is raised. The sharp increase in state capital investment growth during the first six months of this year could mean that the proponents of higher investment growth may be winning out.[3] It is unlikely, however, that greater investment can significantly stimulate productivity without major improvements both in the quality and mix of machinery produced for investment and in the success criteria by which plant managers are judged.

[3]

Figure 3
USSR: Increments to the Working-Age Population (Males 16-59, Females 16-54)



Outlook for the Next Few Years

For Growth

A stronger economic showing this year would help Andropov politically. However, this year's anticipated pickup in GNP growth is not likely to be sustained over the longer term. The problems that have curbed growth since the late 1970s have not gone away; some of them, in fact, are just now reaching peak severity. For example, the net increment to the working-age population this year—less than 400,000 persons—will be lower than at any time in the last two decades (see figure 3). Additions will continue to decline through 1986 and then rise only slightly for the rest of the decade. Growth in the stock of reproducible fixed assets (capital stock) will also decline during the 1980s, assuming that capital investment continues to increase at the average annual rate of almost

3 percent in 1981-82 (versus about 6 percent a year through much of the 1970s).[4] A rise in investment at 3 percent a year coupled with an expected average annual rise in employment of about 0.7 percent and no change in land would yield a rise in combined labor, capital, and land inputs of almost 2.5 percent a year in the 1980s, compared with an average annual increase of nearly 4 percent in the 1970s.[5] Consequently, if—as we expect, for reasons explained below—productivity of land, labor, and capital combined remains flat or declines (as it has for over a decade), growth of GNP would average about 2 percent a year through the 1980s.

We consider that GNP is in fact likely to increase at this rate. We do not rule out the possibility, however, of swings around this trend due to fluctuations in weather. This year is a case in point. A trend growth much over 2 percent would require one or more of the following unlikely developments:

- Extraordinarily good luck with the weather. To help maintain growth at this year's high rate—not merely to sustain output at the higher levels being reached this year—would require steadily improving weather, not just continuation of this year's favorable conditions, for a prolonged period.

- A sharp and sustained increase in the quantity and quality of capital investment. Given the stock of capital now in place, the quantitative increase would have to be extremely large to markedly raise the growth rate of combined land, labor, and capital inputs above the almost 2.5-percent-a-year increases projected above, particularly if qualitative changes are slow to materialize. Thus, even if total investment grew at an annual rate of 6 percent—as state investment did in the first half of 1983—for the rest of the 1980s, combined inputs would grow at about 2.75 percent annually. Even if the leadership has boosted original investment targets, it is unlikely that a 6-percent rate of increase in total investment would or could be sustained indefinitely, since it would (1) entail significant reductions in the growth of consumption or defense or both, and (2) require much more rapid growth in the production of machinery and equipment than we judge is feasible, based on the capabilities of the machine-building sector, for the rest of the decade.

- A reversal of the decline in productivity of land, labor, and capital combined that dates from the 1970s. With the growth of land, labor, and capital combined essentially limited to almost 2.5 percent annually, productivity would have to rise at least 1 to 1.5 percent a year to maintain 3.5- to 4-percent annual growth. But combined productivity of labor, capital, and land has been decreasing for over a decade (see table 8).

Table 8
USSR: Aggregate Factor Productivity Growth

Average annual percent change

	1966-70	1971-75	1976-80	1981-82
GNP	5.3	3.7	2.7	2.1
Inputs of land, labor, and capital	4.1	4.2	3.6	3.1
Factor productivity	1.1	−0.5	−0.8	−1.0

The likelihood that the Soviets can recapture the productivity gains of the late 1960s seems small, primarily because the Andropov regime—as discussed below—seems unlikely to take sufficiently bold and radical steps. Neither draconian steps to force greater effort nor a major systemic overhaul necessary to establish a new and higher growth trend is politically feasible.

[4] Even if the rate of investment were increased to 4 percent per year for the rest of the decade, growth in the capital stock (currently about 6 percent per year) would continue to decline until at least the late 1980s (when both investment and capital stock then would be growing at the same rate). Investment is a "flow" concept as compared with the measure of capital stock.

[5] Inputs of man-hours, capital, and land are combined using weights of 55.8 percent, 41.2 percent, and 3.0 percent, respectively, in a Cobb-Douglas (linear homogeneous) production function. These weights represent the distribution of labor costs (wages, other income, and social insurance deductions), capital costs (depreciation and a calculated capital charge), and land rent in 1970, the base year for all indexes underlying the growth rate calculations.

For Reform

Thus far the policies laid down by the new leadership are well within the bounds of those established during the Brezhnev years. Though the Secretary General has been very candid in acknowledging his dissatisfaction with the performance of the economy and has encouraged wide-ranging public discussion and debate on how to improve its organization and management, most of Andropov's statements and actions suggest that he will emphasize continuity or, at most, slow and limited change.

The major new element of economic policy this year is the discipline campaign, which Andropov introduced to prevent and punish corruption and violation of work rules. In theory, the campaign is aimed at tighter discipline in management; some allegedly corrupt or incompetent officials have in fact been fired. To date, however, it has been directed mainly against blue-collar workers. Both internal security forces and militia teams, for instance, have been used to get laggards off the street and back on the job. A second phase in the campaign began this August when a decree was published introducing sanctions—loss of vacation and pay and even dismissal—against laborers illegally absent from work or intoxicated on the job. The sanctions seem limited and mild, however. Workers who are absent without leave will lose one day of vacation for each day absent, but total vacation time may not be reduced below 12 working days. Since vacation time for over 80 percent of Soviet workers ranges from 15 to 24 days, penalized workers would generally lose less than half of their normal leave.

In a move that they hailed as a major step in the direction of economic change, the Soviets recently announced an "economic experiment" to be introduced at five industrial ministries in 1984 and designed to stimulate productivity and technological innovation. The major features of the experiment include closely linking earnings of the participating enterprises to their performance; giving the enterprises greater autonomy in formulating plans and disposing of their earnings; and simplifying and altering the "success indicators" (performance criteria) by which enterprises are judged

Despite the importance the regime appears to have attached to it, the experiment seems significant mainly in highlighting how limited and slow economic change is likely to be in the USSR. First, the experiment is to be restricted to a small number of enterprises. Second, the decree establishing the experiment and subsequent discussions have made clear that it is not intended to weaken central direction of the economy but only to give enterprises more leeway to raise efficiency in implementing centrally determined plans. And, third, the innovations the experiment will introduce are in fact variations of established practices or of other "experiments" of long standing.

For example, allowing enterprises to use savings achieved through greater efficiency to raise workers' earnings appears to be essentially a continuation of the so-called Shchekino experiment introduced many years ago. Furthermore, the fact that enterprises participating in the experiment next year will have to invest some funds at their disposal in projects they initiate to improve technology does not seem to represent a major expansion of enterprise rights. Enterprises have long been entitled to use some of their earnings for capital expenditures they themselves decide on. The restructuring of the success indicator system called for in the decree outlining the experiment also promises nothing essentially new. The number of targets the participating enterprises must meet is to be reduced, the norms for meeting these targets are to be more systematically calculated by the central authorities, and sales based on contractual obligations will become the prime success indicator. But the Soviets have been playing musical chairs with performance indicators since the 1960s. The measures of managerial performance always are in part contradictory, and managers learn to work the system in ways that benefit them but that run counter to the objectives of planners in Moscow

Further experiments evidently are forthcoming. In a major speech before a meeting of senior party officials on 15 August, General Secretary Andropov expressed discontent with the pace at which the economy is improving and the current lack of vigor in the search for solutions to its problems. He underscored the necessity for changes in planning, management, and incentives before the start of the next five-year plan. Andropov stressed, however, that changes should be undertaken carefully and only after "unhurried" evaluation of large-scale experiments, suggesting that other reform-type measures are not likely to be very bold

One of the most interesting pleas for reform that has surfaced is contained in a paper recently written by members of the Siberian section of the Academy of Sciences and delivered in April at a symposium organized by the Academy of Sciences.* The report points to centralized planning and excessive bureaucracy as the main causes of the recent slowdown in economic growth. According to the text,

> *The deepening of regional, branch, and economic disproportions in the economy of the USSR most clearly testify to the exhaustion of the abilities of centralized administrative direction of the economy and to the necessity of more active use of "automatic" regulators/balaneers of production, which are associated with the development of market relations.*

The paper is critical of bureaucracy and official ideology that hinders meaningful change, but aside from a suggestion that the role of ministries be reduced and their personnel cut, no concrete policy recommendations are made. Furthermore, the criticisms and ideas in the paper are evidently not supported by high-level Soviet policymakers. For example, Gosplan chief Baybakov publicly attacked the report not only as out of line with leadership views but as "factually inaccurate." Other subsequent discussion in the Soviet press has been marked by strong defenses of central planning and rejection of reliance on automatic levers

* The authors are sociologists in an institute headed by the prominent economist Abel Aganbegyan, whose incisive criticism of the USSR's economic failings has agitated Soviet officials from time to time for almost 20 years

On balance, neither the discipline campaign nor economic reform will have much impact on economic performance during the remainder of the 11th Five-Year Plan period. The fact that Andropov has moved so cautiously since assuming power means that economic reform is still a contentious issue in the USSR. Moreover, the improved economic performance in 1983 may even reduce the pressure for economic change, at least in the short run. Any changes that are introduced, therefore, are likely to be slow in coming and of limited applicatior