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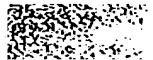
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# Andronov's Likely Strategy for Economic Change

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Directorate of  
Intelligence

# Andropov's Likely Strategy for Economic Change

An Intelligence Assessment

This paper was prepared by the Office  
of Soviet Analysis. Comments and queries are  
welcome and may be directed to  
SOVA

July 1983

## Andropov's Likely Strategy for Economic Change

### Key Judgments

*Information available  
as of 1 July 1983  
was used in this report.*

Since Brezhnev's death, discussion in the USSR of changes in the planning and management of the Soviet economy has intensified. A high-level party review of options is under way, and decisions that will have to be made on this matter over the next year or so could have important implications for Soviet economic growth and for General Secretary Andropov's political future.

Andropov is dissatisfied with the poor performance of the economy. He is aware of the resulting tensions that declining economic growth and inefficiency are generating in Soviet society, and he is convinced of the need to combine regime firmness toward the population with significant change in the economic mechanism.

The key constraint upon change in the economic mechanism is that Andropov and the rest of the leadership—for compelling cultural, economic, and political reasons—will not dismantle the command economy and replace it with some kind of market socialism. The necessity of working within the limits of a basically command planning system, however, creates certain contradictory tendencies both in Soviet thinking about economic change and in actual practice. Soviet policy advisers (unlike many Western economists) broadly agree that the USSR needs better planning as well as greater reliance on certain market-associated practices—not only more decentralization but also more centralization—and better utilization of material incentives, together with skillful employment of the state's power to command.

These contradictory tendencies are reflected in the Brezhnev legacy of programs and proposals for change in the economic mechanism worked out between 1978 and 1982. The Brezhnev measures contain many compromises, and they have encountered varying degrees of noncompliance, sabotage, or neglect on the part of the bureaucracy. Some high officials reportedly are convinced that they are deficient in principle and that more radical initiatives are required. Nevertheless, they do provide a core inventory of politically feasible measures.

Thus, the central issue now facing a leadership that will not and cannot buy market socialism is to decide what direction it intends to move in carrying out already approved policies, what to select from a menu of fairly well-known alternative ideas, and what commitment it is prepared—or able—to undertake in attempting to enforce its will. From the Kremlin's

perspective these questions of emphasis pose critical choices that will have major consequences for the stability of the regime and Soviet power in the decade ahead.

Andropov is likely to support many of the policies inherited from Brezhnev. Beyond this, however, he apparently seeks to develop a more sharply focused action program. In the labor and incentives field the program that Andropov is likely to support will emphasize:

- Further efforts to improve labor discipline and combat corruption.
- A move to limit market forces and strengthen administrative controls in the allocation of labor.
- Greater pressure for higher labor productivity through tighter output norms, combined with greater wage differentiation to reward the industrious.
- Reduction of excess demand in selected consumer markets—which undermines labor incentives, feeds corruption, and breeds disguised inflation—through price increases for some consumer goods (including food) and provision of more “luxury” goods and services for the more affluent elements of the population.

Organizationally, Andropov probably will press for:

- Reorganization of the ministerial apparatus.
- Decentralization of some authority to large industrial associations.
- A devolution of responsibilities—particularly in consumer-related sectors—to provincial and lower administrative echelons.

Finally, in defining the permissible scope of market-associated practices in the economy, Andropov's program is likely to stress:

- Somewhat greater attention than at present to strengthening the role of self-financing and economic levers in the economy.
- An increase in price-profit and market-based relationships within individual farms and between farms and the rest of the economy.
- Innovations in retail marketing practices designed to force state trading and consumer goods-producing organizations to be more responsive to consumer preferences.

The program will probably exclude large-scale extension of private entrepreneurial activity in the services and trade sectors.

The steps necessary to implement this agenda would probably lead to greater stress in relations between the regime and the population. They would also provoke resistance within the economic bureaucracy, the party apparatus, and the leadership as well.

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The set of constituencies from which Andropov could draw support in combating this resistance appears to be narrow and rather diffuse. At the top level Andropov probably needs to alter the membership of the Politburo, extend his control over the Secretariat, and build support within the Central Committee before he can hope to carry through a program of comprehensive economic change.

Although this political breakthrough is probably a precondition for the program described above, Andropov's decisions regarding precisely what to seek in the program and when are likely to affect his power significantly. While his economic strategy is hostage to the limits of his current political strength, it is also potentially the most important means of overcoming these limits.

To set the stage for a new economic program, Andropov is already initiating changes in the personnel field, in the policymaking process, and in political-economic doctrine. But he still must decide whether to try to push through a contentious set of measures more or less rapidly as a package, bringing any accompanying political conflict to an immediate head, or whether to attempt to introduce change piecemeal as he gradually consolidates his power within the leadership.

What could happen by no means depends simply on Andropov's predilections. The interplay of power and policy in the Kremlin could necessitate political compromise and gradualism, but it could also drive Andropov to pursue a high-risk strategy of economic change.

If the steps likely to form Andropov's program of change were in fact implemented, they could have a positive—if modest—economic impact. Whatever its economic consequences might eventually be, a vigorous commitment by Andropov to change in the economic mechanism would, almost certainly have tangible and immediate political effects, including intensified factional struggle within the Politburo—with some probable, if unpredictable, impact on Soviet international behavior.

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## Andropov's Likely Strategy for Economic Change (U)

### Introduction

This Intelligence Assessment discusses General Secretary Yuriy Andropov's likely approach to changes in the Soviet economic mechanism over the next several years. The paper focuses on what Andropov himself has said on the subject, on constraints that inhibit action, on the positions his preferences and political calculations might lead him to take in the ongoing discussion of policy options, and on his prospects for instituting policy change. The overall aim of the paper is to discuss policy choices rather than to predict how effective various measures likely to be adopted might be.

Given the tenuousness of much of the evidence on which it is based, some judgments reached in this paper are necessarily speculative. Tactical considerations related to consolidating his own power must influence Andropov's candor on the politically sensitive issue of economic change. Nevertheless, it is still possible to consider the main directions of movement, bound the range of possible changes, and provide illustrative examples of steps that might be taken.

### Background

#### Nature of the Problem

The Soviet leadership has been confronted by a sharp deceleration since the late 1970s in the rate of growth of GNP, and is widely reported to consider the economy its number-one problem. In 1981 and 1982, growth in GNP averaged about 2.1 percent, somewhat above that attained during 1979 and 1980—1.0 percent—but well below both the 3.6-percent average annual rate of growth achieved during the 1970s and the 4-percent annual rate of growth planned for 1981-85.<sup>1</sup> In industry, serious bottlenecks persisted

during the period; shortages of raw materials, fuels, and power hampered production in almost all branches of industry. A marked decline in the performance of the railroads caused dislocations throughout the economy.

With the exception of agriculture, performance in all sectors of the economy was worse in 1982 than in 1981. A slump in steel production, along with shortfalls in building materials, has curtailed growth in construction and delayed the introduction of new production capacity. The low rates of growth of civilian machinery output—only 3.6 percent annually during 1981 and 1982 and by far the lowest annual increase since World War II—interfered with Soviet efforts to modernize industry, conserve energy and raw materials, and increase productivity. Underfulfillment of productivity plans—upon which the regime has been heavily banking—has been striking; the rise in industrial labor productivity, for instance, averaged only 1.4 percent a year in 1981 and 1982, far below the 4.5-percent-per-year increase called for by the plan.

Some of the difficulty can be accounted for by external factors:

- The third and fourth consecutive years of harsh weather that have depressed agricultural production.
  - Declining increments to the working-age population that have led to labor shortages.
  - The rising cost and increasing difficulty of extracting and transporting energy resources and other raw materials, which have intensified the impact of bottlenecks already present in key sectors of the economy.
- But the key source of economic problems is clearly systemic—the growing inadequacy of existing methods of planning and management. These methods:
- Contribute to irrational investment decisions.
  - Retard scientific-technological innovation.

<sup>1</sup> CIA estimates based on Western definitions and concepts

- Encourage high costs and massive waste of resources.
- Motivate producers to cut corners on quality and assortment, and in many other ways fail to meet customer needs.
- Stimulate widespread illegal economic activity.

**Need for Change**

Most Soviet authorities agree with Western observers that lasting improvement in the USSR's economy will be impossible without changes in the entire economic mechanism. Since Brezhnev's death, discussion of such changes within Soviet bureaucratic and academic circles has increased, and a high-level party review of options, led by a new Central Committee Secretary, Nikolay Ryzhkov, is now under way. The State Planning Committee (Gosplan), the Academy of Sciences, and the State Committee for Science and Technology have been tasked with preparing specific proposals. Soviet officials have told Westerners that major institutions are being asked to submit their views on desirable changes and that a Central Committee plenum will be held to confirm policy in this area. At the June 1983 Plenum of the Central Committee, which was devoted to ideological affairs, Andropov declared that change in management of the economy had become "inevitable": "This is not just our wish, comrades, this is an objective necessity and there is no way of avoiding it!"

Western analysts believe that what is basically wrong with the Soviet economic system is the incorrect information it supplies to decisionmakers at all levels, its bureaucratization and stifling of initiative, and its failure to structure incentives in a way that rewards efficiency. From this perspective, a solution to these problems—"reform"—must entail a comprehensive transition to a market economy in which prices reflect supply and demand and profit maximization is the main objective of managers. Western analysts disagree, however, over whether some improvement can still be squeezed out of the existing command economic system.

Soviet authorities agree with much of the Western description of the ills of the Soviet economy, and some of them may secretly believe that the Western prescription is also correct. Yet—as will be argued below—the prudent calculation of any Soviet policy

adviser or specialist must be that market socialism is politically not a live option and therefore simply cannot be discussed.<sup>1</sup> "Reform" from this standpoint must thus entail improvement in, and preservation of, the basic features of the command economy.

**Resistance to Change**

Historically, attempts to effect fundamental changes in planning and management of the economies of Communist countries have usually encountered strong resistance wherever they have been tried. Opposition has arisen because of:

- A perception—often later proved correct—that a proposed change will create more new economic problems than it solves.
- Awareness that a change will hurt the material or career interests of different groups of officials.
- Submergence of the issue of change in factional struggles within the top leadership.
- Fear that change could lead to loss of control over the intelligentsia or population at large and provoke political instability.
- Belief that a course of proposed action does indeed violate basic precepts of Marxism-Leninism.
- Plain institutional inertia in the bureaucracies charged with introducing changes.

All of these factors are likely to prove sources of resistance to any proposals for drastic change in the Soviet Union. In particular, Andropov must take into account the risks (but also opportunities) that changes to which he commits himself may create for political maneuver in the Politburo and the inevitable attempt by lower bureaucratic echelons to deflect or not implement unwanted changes.

**Maintenance of the Command Economy:  
A Key Constraint**

From the standpoint of Andropov as well as other members of the Soviet leadership, a dismantling of the command economy is almost certainly out of the

<sup>1</sup> In a "market socialist" system, as usually proposed, the state retains ownership of the means of production and makes key investment decisions, but enterprises set their own plans and seek to maximize profits with prices being determined by supply and demand.

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question. A formidable array of cultural, economic, and political factors constrain their choices to "within-system" change.

A planned economy is all Soviet leaders have ever known. They do not understand the purely economic rationale for markets and believe that, however efficiently markets may operate at the enterprise level, they necessarily produce chaotic results on a macro-economic scale. Planning, by contrast, is not only mandated by "Marxism-Leninism," but is probably seen as a critical factor responsible for victory in World War II and the elevation of the USSR to world superpower status. From a purely economic standpoint, the existing system has the outstanding virtue—in comparison with hypothetical alternatives—of being known to *work*, however inefficiently. The vast scale and growing complexity of the Soviet economy and its need for more rapid technological innovation imply—in their view—a need for better overall planning rather than market forces.

The leadership also has in mind an agenda of changes in branch and territorial proportions of the economy (for example, accelerated Siberian development) that it perceives as essential and that it almost certainly believes would not be implemented in the absence of a command mechanism. The leadership is fully aware that in real life the economic cues to which managers and workers respond create multiple and fundamental divergencies between their interests and those of the state at large (as defined by the Communist Party). Because these divergencies cannot be bridged in the near term, the leadership correctly holds that a strong system of bureaucratic transmission and enforcement of decisions is indispensable.

Moreover, to a considerable degree, the substance of policy cannot be separated from the process of managing the economy. Resource allocation priorities of high political import (such as military production, investment in agriculture, assistance to the Non-Black-Earth Zone, or Baykal-Amur Mainline development) can be adhered to and implemented largely because purely economic calculations do not determine policy or its implementation. The capacity to provide staple food items, shelter, and services at a subsidized low cost is probably thought to contribute

significantly to regime stability and legitimacy. The leadership asserts—and probably believes—that the existing economic mechanism provides the possibility of assuring full employment and avoiding the political instability that might arise from decentralizing economic decision making.

For half a century Soviet authorities have insisted that a command economy is a necessary means for maintaining and exercising the Communist Party's monopoly of political power. Its experience in the Bloc has almost certainly reinforced the leadership's propensity to believe that there is indeed a strong—if not invariable—correlation between relaxing central control of the economy and political pluralization. The leadership is aware that the command mechanism provides jobs and a role in society for millions of party and government officials who serve as political ballast for the system, and who otherwise might well prove dispensable. Not of least significance, the leadership realizes that the economic command structure provides a crucial means of combating "localism" within the multinational Soviet empire and is a key instrument for assuring Moscow's economic hegemony over Eastern Europe.

#### Implications for Change

*Permissible Change.* The cultural, economic, and political realities discussed above dictate that the problem the Andropov leadership must address is how to improve the existing planned economy, not whether to introduce comprehensive market socialism. The latter would imply revolution, not reform, and is simply not on the Soviet agenda. Thus, Western discussions that equate reform of the economy with market socialism or even free enterprise are irrelevant from the standpoint of Soviet leadership intentions and current possibilities. In this Western sense, there can be no "reform" in the foreseeable future.

*The Hungarian Model.* Andropov's Hungarian connections and reports that he ran interference in the Politburo for Kadar's reformist "New Economic Mechanism" have stimulated speculation that the Soviets might opt for the "Hungarian model." Fueling

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such speculation has been the promotion in the Soviet press of Hungarian and other East European experiences by a reputed Andropov client, Oleg Bogomolov, the Director of the Institute of Economics of the World Socialist System, and by members of his institute as well as other academics and officials. In addition, there has recently been a flurry of visits to Hungary by Soviet delegations investigating all aspects of the Hungarian economic system for possible adaptation to Soviet conditions.

The Hungarian model deprives the central planning authorities of the power to issue directive targets to enterprises, and it involves the dismantling of the centrally directed supply system, the establishment of profit as the key performance criterion, and the abandonment of centralized price setting (although not price review). As the American economist Joseph Berliner has argued, its attempted introduction in the USSR on a comprehensive, system-wide basis would entail convulsive changes and provoke concerted resistance from most quarters of Soviet society. Although the unacceptability of anything smacking of market socialism would appear to rule out adoption of the "Hungarian model" on an economy-wide scale, it by no means excludes partial introduction of "Hungarian" or other market-associated mechanisms in individual sectors of the economy. Conversations of high-level Soviet policy advisers with Westerners suggest, additionally, that the Soviets have been interested not only in piecemeal application of Hungarian market mechanisms but also in the less intrusive role in daily management of the economy assigned to the central party apparatus in Hungary.

**Inconsistencies.** Having to work within the limits of a command system leads to opposing tendencies in Soviet discussions of change in the system of economic organization and management. Soviet policy advisers (unlike many Western economists) broadly agree that the USSR needs better planning as well as greater reliance on certain market-associated practices: not only more decentralization, but also more centralization; and better utilization of material incentives, together with skillful employment of the state's power to command. Many Soviet experts, for example, strongly favor granting production managers much greater operational autonomy, while at the same time they believe there must be more effective,

centralized direction of science and technology policy, long-term capital investment, regional development strategy, financial policy, labor policy, and integration of the Soviet economy with that of Eastern Europe. These antinomies are clearly reflected in changes in the economic mechanism approved since 1978.

### The Brezhnev Legacy

Western discussions of the reform issue often convey an impression that Soviet leaders and policy advisers are waiting for somebody to advance radically new proposals for change. In fact, an inventory of programs and proposals is already available in the form of a range of measures worked out since 1978.<sup>1</sup> These measures, which we shall call the "Brezhnev legacy," cover many aspects of the economic mechanism—central planning, success criteria, pricing, finances, wholesale supply, ministerial structure, agricultural administration, operation of production units, and organization of labor and wages, for example.

The Brezhnev legacy attempts to combine broader employment of some market-associated mechanisms with measures aimed at achieving more effective planning. Thus, it:

- Expresses a general intention to extend self-financing practices in the economy further than at present.
- Approves higher wholesale prices on the output of sectors of the economy running at a planned loss and dependent on direct subsidies from the state budget.
- Insists on fuller payment for resources (land, materials, finance, and labor) through higher prices.
- Increases the role of bank credit and enterprise funds in financing capital investment and inventory accumulation as compared with grant financing from the state budget.
- Emphasizes direct ties and contractual obligations between enterprises.
- Encourages individual production and sale of agricultural produce.

<sup>1</sup> See [redacted]

But at the same time it seeks to improve stability and balance in the economy by emphasizing five-year instead of annual planning.<sup>4</sup> It also extends intersectoral and regional program planning, emphasizes planning of scientific and technological innovation, and broadens the scope of financial planning.<sup>5</sup>

Even diehard advocates of central planning are increasingly aware that Moscow must give up a certain amount of authority to lower level institutions to be able to exercise strategic control over the economy. Thus, the Brezhnev legacy:

- Expresses a willingness to assign more authority to republic and local soviets in planning and management, especially in the areas of consumer goods production, trade, and services (a recent Central Committee CPSU and USSR Council of Ministers resolution on consumer goods production has already taken a small step in this direction).
- Emphasizes the creation (or restructuring) of large industrial "associations" (*ob'edineniya*), with the elimination of intervening bureaucratic layers between them and the ministries, and the granting to them of greater operational independence.

However, the Brezhnev legacy also provides for an increased role for centrally set plan "normatives" and

<sup>4</sup> Soviet planning specialists believe that one important reason why managers at all levels are not more responsive to plan mechanisms designed to promote efficiency, quality improvement, and cost reduction, and why disruptive bottlenecks constantly occur is that signals are so constantly being changed in the system that nobody can count on anything very far ahead. "The plan" ceases to provide meaningful information about the future to a manager, when his output plan is changed repeatedly during the course of the year, his supply plan is regularly not fulfilled, and he knows he will be able to whoodle a reduction in plan targets from his ministry toward the end of the year if he is unable to meet goals set earlier. Thus, rather than emphasize a need for greater flexibility in planning (as a Western economist observer might), these specialists stress as one of their very highest priorities the need to make planning more rigid and to extend the operative plan horizon.

<sup>5</sup> Soviet policy advisers assert that failure to take account in the planning process of many financial flows and the absence of a truly consolidated state financial plan synchronized with the physical plan contribute to major disproportions in the economy. In this respect they are telling the political leadership that more effective centralized control over finances is required.

"limits," which will constrain choices open to managers,<sup>6</sup> and the creation of additional centralized, inter-branch organs for managing so-called territorial-production complexes. And it aims at increasing the use of direct command mechanisms to force conservation of raw materials, fuel, and energy and to limit the use of other scarce goods.

In the area of incentives, the Brezhnev legacy implies:

- A revision of incentive systems, with an emphasis on somewhat greater wage differentiation.
- Continued introduction of organizational structures designed to link rewards and final output (especially the "brigade" organization of labor in both industry and agriculture).
- A heightening of incentives for both management and labor to reduce the number of workers on particular jobs by emphasizing, for example, the "Shehekino method," under which funds saved by releasing redundant workers are used to increase the wages of remaining personnel.

The decrees on economic organization and management now on the books—which incorporate the contradictory impulses of the Brezhnev legacy noted above—have encountered varying degrees of noncompliance, sabotage, or neglect on the part of the

<sup>6</sup> In contrast to so-called addressed targets which set directive goals for specific enterprises or sectors of the economy (for example, tons of steel production, sales of shoes), "normatives" and "limits" are parametric goals that are mandatory for subsectors of the entire economy without reference to any particular producer. These goals are derived from technical calculations or from an assessment of performance within a group of enterprises. Some targets expressed as "normatives," for example, include parameters (ratios) for wage funds, allocations to ministerial science and technology development funds, volume of working capital, utilization of material inputs, amortization deductions, retention of profit, formation of bonus funds, payment for production funds, rent payments, and interest on loans. "Limits" set upper bounds, for example, for material expenditures per ruble output or number of workers and employees by branches of the economy. There is widespread enthusiasm among many Soviet policy advisers for normatives and limits because they appear to promise flexibility and generality while retaining centralized control.

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bureaucracy. The opposition to the decrees stems mostly from the fact that they conflict with short-term goals to which the regime also attaches high priority or would introduce standards that would reduce the income and career prospects of the managers responsible for their implementation. At least some high officials reportedly are convinced that these measures are deficient and that more radical initiatives are required.

Nevertheless, the key issue now facing a leadership that will not and cannot buy market socialism is to decide what direction it intends to move in carrying out already approved policies, what to select from a menu of fairly well-known alternative ideas, and what commitment it is prepared—or able—to undertake in attempting to enforce its will. From the Kremlin's perspective, these questions of emphasis—we believe—pose critical choices that will have major consequences for the stability of the regime and Soviet power in the decade ahead. The outcome of these choices will depend partly upon Andropov's preferences, partly upon political constraints and opportunities, and partly upon Andropov's tactical skill.

#### Andropov's Outlook

##### His Assessment of the Present Situation

In half a year in office, Andropov has made a number of statements that provide the basis for a preliminary analysis of his views on the state of the Soviet economy and of his probable strategy for improving its performance. The list includes a major "theoretical" statement in *Kommunist*, the party's ideological journal, and a speech at the June Central Committee Plenum—both of which almost certainly reflect divided opinion and political conflict within the Kremlin. The content of the article indicated that it was designed to set the stage for intensified doctrinal and policy debate, leading to an elaboration of new economic doctrine—probably in a revised party program for which Andropov appealed at the June Plenum. The debate and the doctrine would justify policy

innovation and reinforce Andropov's personal power by strengthening his claim to be a leading Marxist-Leninist "theoretician."

A number of reports and his own public pronouncements suggest that Andropov is even more dissatisfied with the poor condition of the Soviet economy than Brezhnev was. Enormous investments have not paid off as expected, and scientific-technological innovation is lagging—with negative consequences, he probably believes, for Soviet military power. Performance, he states, is lagging behind plan targets for the 11th Five-Year Plan; costs are too high; there are large overexpenditures of material and financial assets; and labor productivity is not rising rapidly enough. Particularly serious, he says, is the gap between the expanding money income of the population and the availability of consumer goods. This disequilibrium not only undercuts incentives, but has the politically harmful effect—he implies—of exacerbating public resentment of inflation and shortages. He notes that the economy so far has responded very sluggishly to remedial steps, and the thrust of his comments strongly suggests that he believes the prognosis is for very slow improvement at best.

Like his predecessor, Andropov identifies several obvious constraints upon economic growth:

- Poor managers hinder improvement in economic efficiency.
- Investment is squeezed, on the one hand, by military spending necessitated by the "imperialist threat," and, on the other, by the need to maintain tolerable levels of consumption.
- Shortfalls in agricultural production and rising costs for extracting, processing, and distributing fuels and raw materials have reduced growth.

<sup>1</sup> A party program sets forth the goals, tasks, and broad policies of the party for the foreseeable future. Acceptance of its content is a condition of CPSU membership, and training and propaganda in the Soviet Union are tailored to the program's precepts. To date, only three party programs have been established by the CPSU or its forerunners—in 1903, in 1919, and in 1961 under Khrushchev.

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But the critical factor, according to Andropov in *Kommunist*, has been the failure to implement change in the management of the economy:

*Why do we not get the proper effect now from the huge capital investments? Why are the achievements of science and technology being introduced in production at rates which do not satisfy us? Many reasons may be mentioned, of course. In the first place, we cannot fail to see that our work, aimed at improving and reorganizing the economic mechanism and the forms and methods of management, is falling short of the demands made by the present level of the material, technical, social, and spiritual development of Soviet society. And that is the most important thing.*

Obsolete doctrines and tradition-bound thinking—he clearly implies—have inhibited the development of solutions to economic problems and blocked necessary policy adjustments.

**Social Discipline: The Precondition of Change**

With the Polish example freshly in mind, Soviet leaders are well aware of the potential linkages between poor economic performance, public malaise, and political instability—even though they may differ over their assessment of the seriousness of the current situation and how to deal with it. In discussing potential political instability, Communist ideologists prefer to couch their discussion in pseudo-philosophical code talk about “contradictions.” In his *Kommunist* article, Andropov takes a position in an ongoing heated but esoteric debate on contradictions that has major implications for dealing with sociopolitical conflict. In the context of this debate, he emphasizes the remoteness of Soviet society from the Communist ideal, the existence in it of substantial latent and potentially dangerous social tension, and the consequent need for regime firmness:

Central to Andropov’s assessment of the present situation is a perception that social alienation among the Soviet population is widespread. This is a judgment not reflected in Brezhnev’s speeches. Manifested in lack of discipline, shoddy workmanship, lack of commitment to enterprise goals, theft, labor turnover, a flourishing “second economy,” and widespread corruption, social alienation saps productivity and fuels

resentment against those seen to profit illegitimately (including—Andropov knows—party and other officials). Within intellectual circles, frustration over the near-stagnant economy and an absence of effective reform could—Andropov suggests—heighten receptivity to democratic socialism. The outlook for a dissipation of such feelings of alienation—he implies—is not favorable in the foreseeable future. Judging by his public statements, Andropov, like other members of his class, evidently has a jaundiced opinion of the ideological commitment of Soviet working people and little faith in the political reliability of the intelligentsia. Although social alienation presents no immediate danger to the system, it could, if unchecked, lead to political instability.

Thus, for Andropov, the first step that must be taken is “a consistent consolidation in all spheres of the national economy of what Marx described as ‘regularity and order.’” This is Andropov’s response to existing levels of alienation and possibly foreshadows belt tightening to come. One facet of this “consolidation” is the highly visible campaign already under way to use coercive “administrative measures” to enforce labor discipline: “Although everything cannot be reduced to discipline, it is with discipline that we must begin, comrades!”<sup>4</sup> Discipline, Andropov observes, is an essential prerequisite for other measures and a step that “does not require any capital investments, yet produces an enormous saving.”

Coercive means, Andropov evidently thinks, can help to improve efficiency. But he obviously believes that these means alone cannot produce economic salvation. Andropov recognizes that worker and managerial behavior will continue to be determined by material interests and incentives—a position that he recently reemphasized at the June Central Committee Plenum. He acknowledges, for example, that new technology is not being introduced in production in large part because this puts managers who do so at a disadvantage.<sup>5</sup> Effective solutions to Soviet economic

<sup>4</sup> See *International Economic & Energy Weekly*, [ ] 1 April 1983, “USSR: Labor Discipline Campaign.”

<sup>5</sup> Existing incentive systems and prices do not compensate managers for the lost production, major inconveniences, and risks often involved in manufacturing new products.

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problems must harness such interests rather than suppress them. Thus the role of coercion in Andropov's strategy, while significant, is limited: reinforcement of order, not social mobilization in the sense of the extraction of a vast amount of unpaid and involuntary labor, is its aim. However, if it became clear that economic incentives were not going to do the trick, Andropov might well employ coercion for mobilization purposes—as he did in Karelia during the Second World War. (

The other facet of Andropov's strategy for strengthening social order involves public relations. Through his speeches, appearances, and writings, Andropov evidently seeks to:

- Create an impression that the regime is responsive to popular resentment over unearned income, free-loading, and corruption.
- Deflate any expectations of rapid improvement in the standard of living.
- Convince the population that the leadership is leveling with it about economic problems.
- Demonstrate that there is now a will to act, and follow through once decisions are taken.
- Confirm that the regime, if tested, can and will defend the political system with whatever means are necessary.

Andropov's purpose is essentially to shape political attitudes, which indirectly may influence labor productivity. He evidently does not believe that work habits are likely to respond much to direct propaganda or moral suasion. The General Secretary cynically dismisses "slogans," "persuasion and exhortations," and "fussing and talk," and generally downplays the organizing of "socialist competition" among enterprises—undercutting the role of thousands of party, trade union, and Komsomol officials who are engaged precisely in such activities. The tone of his references to these traditional "agitational" functions contrasts markedly with the way in which they were treated by Central Committee Secretary Konstantin Chernenko at the June Central Committee Plenum.

#### Andropov's Likely Policy Preferences

Andropov's speeches and his *Kommunist* article indicate the general direction in which he hopes to turn the discussion of economic change.

*Limits to Change.* First, his statements set the basic boundaries within which change in the economic mechanism must occur. These include:

- Maintenance of monopolistic political power, even if exercised in new, more flexible ways.
- Maintenance of public ownership of the means of production.
- The unacceptability of any Yugoslav-type communally owned and cooperatively managed production units.
- Adherence to "democratic centralism."
- Retention of "a single system of scientific guidance, planning, and management."

Andropov does stipulate that change must not be precipitous but should be "carefully prepared and realistic"; "to run ahead means to put forward unfeasible tasks." Yet, within well-understood limits, the *Kommunist* article and speech at the June Central Committee Plenum by implication call for broad innovation in the economy.

Neither serious democratization, nor comprehensive reliance on markets in which central authorities do not dictate quantities supplied by individual sellers and prices, nor transfer of the basic means of production to private ownership seems to be a live issue today among Soviet policymakers or top-level advisers—even though certain advisers and academics with past ties to Andropov or his subordinates are emphasizing the relevance of East European experiments with partial restoration of markets by allowing enterprises to set some prices and exercise greater managerial autonomy generally. In this context, Andropov appears to invite rather than foreclose discussion of real-world issues, such as the degree of centralization of planning and administration, the role of financial mechanisms, the organizational structure of industry and agriculture, and the permissible bounds of individual entrepreneurial activity.

Andropov, by encouraging creativity and relevance under contemporary conditions, takes dead aim at dogmatism and mindless defense of the status quo.

\* This formulation deliberately provides more scope for modification of the planning system than the one favored by unregenerate centralists which pictures "centralized planning" as the centerpiece of a true "Leninist" approach to managing the Soviet economy.

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His stress on intellectual analysis rather than sloganeering serves the same purpose. The General Secretary's repeated support for the study of Bloc countries, which follows the lead given by Brezhnev at the 26th Party Congress, is unquestionably change oriented. Finally, he implies that "political economy"—the doctrine that circumscribes change in the principles underlying the economic mechanism—must now be updated

**Resource Allocation and Wage Differentiation.** His remarks on resource allocation suggest considerable continuity with Brezhnev's positions. For example, he would probably prefer to:

- Increase investment in mechanization of labor (and therefore in the machine-building industry) and the steel industry and raise somewhat the proportion of investment going into the production of energy-saving equipment as against the share going into primary energy production.
- Maintain the Food Program, but with an eye to possible savings of investment funds.
- Keep wage increases—and therefore consumer demand—in line with growth in labor productivity even though powerful pressures in the economy have encouraged outsize wage gains—a general labor shortage, the availability to enterprise management of state budget subsidies to supplement the wage fund, working conditions in Soviet enterprises, permissive labor laws, and long cultural conditioning.
- Raise some prices as a step in reducing subsidies and dealing with shortages in particular consumer markets

An integral—and vital—feature of Andropov's campaign to reestablish labor discipline is his strong support for linking remuneration to the contribution of the individual worker. In his public statements Andropov has harshly attacked leveling because it conflicts with the priority the regime has assigned to raising labor productivity. His tactic is to play to popular resentment of wage abuses, while calling for systemic changes that will in fact heighten wage differentiation. In so doing, he openly justifies a policy of greater social inequality in the USSR.

**Economic Organization.** In the area of economic organization, Andropov has publicly—if perhaps reluctantly—endorsed the creation of the agro-industrial associations mandated by the May 1982 Plenum of the CPSU Central Committee. He has also lent some support to the transition throughout the economy to the so-called brigade organization of labor. And he has attacked "departmentalism" and parochialism, hinted at the desirability of general reorganization, and implied the need for a reorganization of the construction industry

On several occasions Andropov has spoken in favor of greater "decentralization" of decisionmaking in the economy. Thus, in his 22 November 1982 speech, he declared:

*A good deal has been said lately about the need to extend the independence of associations, enterprises, and collective and state farms. The time seems to have come to tackle this problem in practice. The Politburo has instructed the Council of Ministers and the State Planning Committee on this score. It is necessary to act with caution here, to conduct experiments if need be, to make appraisals, and to take account of the experience of fraternal countries. . . .*

He also called for a shift in decisionmaking related to consumer goods production from central to local authorities. In his article on Marxism, he emphasized the enhanced managerial role of local authorities in connection with the formation of the agro-industrial associations and referred to "widening the framework of independence of industrial enterprises and state and collective farms." "

" Andropov's thinking about decentralization is not without ambiguity. There is an important difference between decentralization of authority to production units (enterprises or farms), and to "supra-production" units (industrial associations, district agro-industrial associations, or local soviets), where authority is now exercised by central organs. The latter type of change is likely to imply recentralization from the standpoint of production units. Thus, an industrial enterprise, when incorporated with other enterprises into a production association, loses its relative financial and operational independence and exchanges subordination to a somewhat more removed ministry or ministerial main administration for direct supervision by a more proximate and interventionist association management. Andropov talks about both types of change without drawing distinctions

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**Andropov's Probable Positions on the Hard Options**  
How Andropov will translate general preferences into specific choices among difficult options will depend heavily on how the economy fares over the next few years and on the strength of his political position. An assessment of these prospects must therefore be more speculative. {

**Self-Financing and Economic Levers.** Soviet authorities agree generally that the Brezhnev line of encouraging an extension of "self-financing" (*khozraschet*) practices and economic levers in the economy is correct and should be pursued. (*Khozraschet* refers to the responsibility of an enterprise to cover current operating expenses out of revenues, while economic levers refers to the use of such instruments as prices, bank financing, and contractual relationships to influence enterprise behavior. Both terms, in a more general sense, are understood by Soviet audiences to refer to indirect methods of control as opposed to direct commands regarding what to produce and how to produce.) But sharp differences of opinion exist over methods of accomplishing this aim

Within the policy advisory community and among lower level specialists the question of how to extend self-financing and increase the importance of economic levers while retaining central planning is probably viewed as the paramount reform issue. This certainly is the area of policy in which the question of the viability of a Soviet-type economic system is raised most persistently, and the manner in which tensions between these two objectives are resolved strongly affects the resolution of most other questions. In the long run, this is therefore a make-or-break matter.

Andropov's statements bearing on this issue have left his position ambiguous. His stress on material incentives and greater local authority, his calculated failure to endorse "centralized" planning as the backbone of the Soviet economic system, and his criticism at the June Central Committee Plenum of existing principles of price formation could be taken as indicating support for a more active role for indirect rather than direct methods of controlling enterprise behavior. On the other hand, he firmly endorses Marx's "surplus value theory," which creates major obstacles to rational pricing, and strongly criticizes "individualistic habits, the striving to gain profit at the expense of other people."

Westerners have heard veiled hints from some Soviets that Andropov might in time try to upgrade the role of economic levers in the Soviet economy: If taken seriously, this approach would reduce the scope of directive planning from above, increase the role of profits as a guide to enterprises, and prevent ministries from reallocating profits from the more effective to the less effective enterprises. It would also give managers more authority over production decisions, introduce sanctions serious enough to compel enterprises to meet contract obligations, provide managers with real incentives to release redundant labor, and require much greater attention to supply and demand in setting prices. Such an approach by Andropov would square with his appreciation of the need to harness material interests to regime objectives and might be seen by him as the one means of dramatically improving economic performance.

Nevertheless, there are strong reasons why Andropov might not make economic levers the major element of a program to improve Soviet economic performance:

- Kosygin failed to implement an economic reform geared to economic levers.
  - Political support for it in the Politburo would probably be tenuous, and there appears to be little enthusiasm for it within broader elite circles
  - Opinions of Soviet specialists are quite divided on this issue.
  - The kind of partial moves most likely to be involved would probably not produce large results in the short term and could produce confusion.
  - The levers issue probably does not arouse much popular interest and is difficult to dramatize.
- Thus, even though he might view the long-term payoffs from upgrading economic levers as potentially great, Andropov may well defer serious action unless he is convinced that immediate steps cannot safely be postponed. }

**Organizational Changes.** The large number of narrowly specialized economic ministries offer a prime target for reorganization. This topic has been widely discussed by specialists, who have advanced cogent reasons for changes, and has been under consideration by the leadership for years. Ministerial restructuring

reportedly may be included in a package of proposals that will be recommended—apparently within the next 12 months or so—to the leadership by Nikolay Ryzhkov and his Central Committee Economics Department.

Andropov's options here, of course, would depend on the support he could muster in the Politburo and on the political risk he would be prepared to accept in challenging vested bureaucratic interests. Reorganization might take the form of a consolidation of ministries, a subordination of functional or program-related ministries to superministers (as may already be in train), or both. At the same time, ministries might be compelled to integrate their activities more closely with technological programs generated by Gosplan, the State Committee for Science and Technology, and the Academy of Sciences. Such a reorganization, if it were major, would provide Andropov with a unique opportunity to purge the ministerial bureaucracy, install clients beholden to him, and increase his influence over the Presidium of the Council of Ministers—perhaps getting rid of Tikhonov and others at the same time.

This reorganization might be combined with a pruning of subministerial echelons and an all-out drive to further concentrate operational authority in large production associations. If he follows this path, Andropov would accentuate the line set by Brezhnev at the 26th Party Congress, which has encountered obstruction and delay in some ministries. This approach would be seen as permitting a devolution of some planning tasks, improving opportunities for technological change, and creating a better environment for *khozraschet*. At the same time, it promises economies of scale in the performance of auxiliary and staff functions and would make it easier to establish long-term direct contractual ties between suppliers and purchasers—thus raising the responsiveness of producers to consumer requirements. The relative success of the East Germans with their similar "kombinats" is an additional argument raised by policy advisers for moving faster in this direction. Although this kind of ministerial reorganization would retain—and perhaps enhance—the capacity for effective central intervention in economic management where this was desired, it would also offer the prospect of a reduction in the

burden of detail on central planners, greater maneuverability in production, and better coordination with regional scientific and technological institutions.

Major organizational difficulties may arise if the leadership decides that it should take more radical steps to improve horizontal coordination of the economy at the regional level. The regime has responded to the regional coordination problem so far by:

- Creating territorial production complexes, mainly in eastern developing regions of the country.<sup>12</sup>
- Upgrading the regional dimension of central planning.
- Increasing the consultative voice of regional authorities in reviewing the plans of enterprises that are located on their territory but are subordinate to higher bureaucratic echelons.
- Devolving some power in consumer-related sectors to local soviets.
- Calling for local planning organs to play a more active role.
- Encouraging experimentation by local party organs in horizontal coordination of science, technology, and industrial production.

Further steps can be taken along these paths, but there are severe limits to the returns that can be squeezed from each. The question of whether or not to shift substantial control over the allocation of at least some resources from Moscow to the local level cannot long be deferred. At this point, the Politburo—which now contains five regional party barons among its full and candidate members—will have to reconcile conflicting regional, ethnic, and central interests. In his speech at the 60th Anniversary of the formation of the USSR (December 1982), Andropov—mindful of the unsatisfactory experience of the ill-fated local economic councils (*sovmarkhozy*) under Khrushchev and aware of latent nationalist sentiment in the non-Russian borderlands—gave fair warning that his highest priority would not be regional "decentralization." Instead, he stressed the protection of all-union economic interests and the defense of the political integrity of the Soviet multinational empire.

<sup>12</sup> See

**Agriculture.** Andropov will soon have to speak more directly on the critical issue of agricultural organization. His freedom of maneuver is constrained by the ongoing creation of so-called agro-industrial associations at the rayon (rural district) and all higher administrative levels—a decision taken at the May 1982 Plenum of the Central Committee as part of Brezhnev's Food Program. The centerpiece of this program is the rayon agro-industrial association, or RAPO, which brings together leaders from the bottom rungs of all the agriculture-related service agencies and heads of collective and state farms under the leadership of a deputy chairman of the rayon soviet executive committee.<sup>14</sup> This reorganization has encountered much resistance from the agencies and parent ministries, who fear that they will lose control of their own bureaucracies, and the shape it will take in practice remains to be determined.

The RAPOs create serious difficulties for economic policy that Andropov must address. Without a change of course, RAPOs are likely to diminish still further the operational and financial autonomy of the farms. This will further undercut the ability of farms to make rational decisions. Although the RAPOs were set up to bring order to chaotic administrative relationships in the rural districts, they may actually intensify problems of authority by placing many agencies under dual subordination both to the RAPO and to their own ministerial or regional superiors. A move backward through liquidation of the RAPOs would reestablish the lack of responsibility of the service agencies for final results in agriculture. A move forward to subordinate all agencies and farms to the RAPO would create over 3,000 little rural economic councils (*sovmarkhozy*), pose a major question of how these bodies would relate to the rest of the Soviet economy, and bureaucratize farm management even more thoroughly.

Andropov's options appear to be limited, in part because he probably cannot openly abandon the RAPOs. They enjoy considerable support within the party apparatus and do provide a needed framework for integrating the farms, service agencies, and enterprises processing food and raw materials. At the same

<sup>14</sup> See

time he probably cannot take the politically safest course of doing nothing, since farm efficiency must be raised to improve the food supply and reduce the burden of agricultural spending. In some quarters within the political elite, there is strong support for the ideologically orthodox strategy of simply moving ahead with the creation of more interfarm organizations and calling it a step toward "Communism." Other officials are probably counseling Andropov to seek a solution to the agricultural problem by promoting entrepreneurial activity under the RAPO umbrella.

Andropov has not yet given a clear signal of how he wishes to proceed. Clearly he approved the decision of the Politburo in early March 1983 to give full backing to the so-called collective contract system of organizing and paying farm labor. This arrangement depends upon a broadening of self-financing practices in farms and represents a significant step toward involving smaller groups of rank-and-file labor ("brigades" or "links") in profitmaking activity. Yet, at the June Central Committee Plenum, he emphasized the future amalgamation of collective farms with the state sector.

Andropov may well be compelled by reality to acknowledge that progress in agriculture is only possible through an extension of market practices. Should he come to this conclusion, additional measures that he could support might include:

- Reducing obligatory farm deliveries to the state at fixed procurement prices and allowing farms to sell more of their produce in collective farm markets.<sup>15</sup>
- Relying more on the price mechanism and less on directive measures to influence farm decisions on what to raise.
- Systematically increasing commercial relationships among RAPO member organizations.

If Andropov were to turn to Hungary for ideas to improve any sector of the economy, agriculture would probably be one such area. The Soviets are impressed

<sup>15</sup> The Brezhnev leadership already took one cautious step down this path in 1982 when it allowed farms to sell up to 10 percent of their planned procurement of fruit and vegetables on collective farm markets and to count this volume toward their obligatory deliveries to the state.

by Hungarian agricultural successes, and the leadership—speaking through Brezhnev at the 26th Party Congress—has already specifically commended Hungary in this regard (although not, it should be noted, for doing away with farm procurement quotas). If Andropov decided to extend market ties in agriculture, he would need a new doctrine to provide political cover and at the same time prevent an undesired extension of market influence elsewhere.

**Industrial Labor Relations.** Andropov might be inclined to rely more on market forces in agriculture, but he probably will go in the opposite direction in industrial labor relations—the field in which he has most clearly manifested a readiness to act. The regime's objectives are to get workers to exert themselves more, to improve the quality of work, to release and reallocate surplus workers, and to prevent undesired labor turnover. The root of the difficulties in each of these areas is probably perceived by Andropov and his advisers as the existence of a seller's market for labor and too little planning and legal control. The combination of these two factors leads management to neglect labor discipline, ignore the connection between quality of labor effort and remuneration, hoard labor, and stimulate turnover by what amounts to competitive bidding for labor.

Soviet experts concerned with labor issues believe that it is necessary to:

- Increase economic incentives for management to release redundant labor (for example, by more vigorously implementing the labor-saving "Shchekino" method).
- Mobilize worker interest in the results of joint labor and in reducing the number of workers performing a job (for example, by forcing managers to organize labor brigades that operate in fact on the basis of self-financing and payment for their collective production).
- Promote redistribution of labor by expanding the role of local government organs in retraining and reallocating labor and by paying for job retraining.
- Impose higher output norms that require more work for the same pay.

- Increase wage differentiation significantly.
- Rely more on administrative mechanisms to enforce labor discipline.

Several measures taken by Andropov suggest that he believes the stakes are high enough to justify the risks of temporary unemployment and potential political instability entailed by bearing down on the workers: the discipline campaign initiated after his accession to office; the posting of his client, KGB chairman Fedorchuk, as head of the Ministry of Internal Affairs with an apparent mandate to strengthen law enforcement; and the stepped-up repression of dissidents. Thus, for example, he is quite likely to support harsh new laws regulating discipline and labor mobility. *According to* [ ] Andropov has personally participated in drafting a proposed new law on employee conduct that would prevent a person who was fired from being reemployed again for six months the first time and possibly for a year the second time.

The practical problem with such laws in a tight labor market (as with the imposition of higher output norms and greater wage differentiation) lies as much in getting managers and local party officials to enforce them as in obtaining obedience by workers. If tough new labor legislation is enacted, Andropov may be tempted to assure labor quiescence and managerial compliance by expanding the informer network and monitoring role of the KGB in enterprises.

With regard to positive incentives, the Supreme Soviet recently approved a new draft law on the participation of workers' collectives in the management of enterprises. While the law is new, the changes—to take effect on 1 August 1983—seem essentially cosmetic. For example, the law gives labor very little authority in making plant-level decisions such as the selection of management personnel or the setting of worker salaries. The law's first article in fact stipulates that the workers' collectives must function "under the leadership of the organization of the CPSU" and that the duty of the collectives is the "unswerving execution of the party's decisions."

*Excess Savings and Consumer Goods Supply.* Failure of the supply of consumer goods to absorb the population's rising monetary income has created a pool of savings that is thought by the Soviets and many Western observers to be large enough to undermine labor incentives, feed corruption, increase inflation, and—via Second Economy effects—distort regime social priorities. [ ] recently told by a high Gosplan official [ ] that the gap between purchasing power and the availability of consumer goods is \$100 billion. Some Western estimates are substantially higher."

The matter deeply concerns the Soviet authorities, and, as noted above, Andropov himself has repeatedly expressed anxiety. In dealing with this important issue, Andropov must balance regime economic objectives against social stability and in the process guard his own political flanks. The high political sensitivity of the issue arises from the fact that potentially effective responses to it tend to involve a reduction in the apparent standard of living, shifts in income distribution and greater social class differentiation that contradict popular notions of progress toward "Communism," and an ideologically suspect expansion of private entrepreneurial activity

On the demand side, the leadership could try to influence the situation through changes affecting wage policy, retail prices, savings, and taxation. Thus, for example, the Gosplan official cited above has suggested in the press a package of proposals. He would clamp down on minimum wage hikes for various categories of employees, use planning norms to hold wage fund increases below productivity growth, and introduce a graduated income tax. He also advocates an active price policy: a rise in retail prices (presumably including food prices) to bring them more into line with costs; introduction of flexible retail prices to equilibrate supply and demand; introduction of payments for some heretofore free social services; higher rent for better housing (existing highly subsidized rents are differentiated only for apartments above the legal minimum size, and then only by

their square meterage—not by quality or tenant income); and increased rent and tax payments for private land use. [ ] the same Gosplan official acknowledged [ ] the possibility, although undesirability, of a currency revaluation that would reduce the savings overhang.

On the supply side, the leadership has options that could affect the quantity and quality of goods as well as marketing mechanisms. [ ] proposes priority for private consumers over producers in the allocation of fuel, building materials, metal products, and transportation services; expanded production of consumer durables; more privately financed housing construction; an increase in tourism; and an ethnically sensitive policy of regional allocation of consumer goods according to levels of income. Other experts suggest an expansion of direct retail sales outlets for firms producing consumer goods, and some have even broached the delicate subject of a greater role for private enterprise by individuals in the service sector.

Andropov's words and behavior so far supply some clues as to the direction in which he would like to move. In general, he probably would go along with proposals that have the effect of increasing social inequality and catering to the more affluent elements in the population. One of the first publicized Politburo agenda items under Andropov's leadership, for example, was the provision of repair service and spare parts for private automobiles. Food price increases in early 1983 suggest that he will probably try to pass on more of the costs of food production to the consumer. He will, however, handle this volatile business with extreme caution. A few Western analysts believe that Andropov will not be able to avoid a monetary revaluation or a freeze on the use of savings. Although he would probably estimate that the regime could handle any threat of disorder that such an encroachment on savings might trigger, he would also have to think long and hard about whether such a step would in fact induce people to work harder.

Andropov could easily accept direct retail marketing by enterprises manufacturing consumer goods, and he might accept greater flexibility in retail prices. At the

\* In a forthcoming Intelligence Assessment, *USSR: Problems in Meeting Consumer Demand*, we maintain that the USSR has done a reasonably good job of keeping growth in incomes in line with the increase in the overall supply of consumer goods and services. However, in some important segments of consumption (notably, quality foods, housing, and consumer services), supply falls far short of demand at existing prices.



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June Central Committee Plenum, he urged that more attention be paid to cooperative housing construction. But the expansion of private business activity in the trade and services area—making legal some elements of the Second Economy—would raise more difficult questions. This topic does appear to be on the political agenda for discussion, and there are good arguments in favor of positive action. It could bring quick relief to many consumer complaints at low economic cost to the state, sop up excess purchasing power, and stimulate labor productivity. However, it would also violate existing doctrine and could increase Andropov's vulnerability in the Politburo. Andropov's campaign against corruption, his strong public endorsement of public ownership of the means of production and attack on "selfish considerations" and profiteering, and his likely reading of potentially hostile public reactions probably will lead him—at least for the time being—to reject proposals that would significantly expand private entrepreneurial activity in the service and trade sectors along "Hungarian" lines

#### Andropov's "Bottom Line"

Andropov, thus, is likely to support many of the policies inherited from Brezhnev. Beyond this, however, he apparently seeks to develop a more sharply focused action program. In the labor and incentives field, the program that Andropov is likely to support will emphasize:

- Further efforts to improve labor discipline and combat corruption.
- A move to limit market forces and strengthen administrative controls in the allocation of labor.
- Greater pressure for higher labor productivity through tighter output norms, combined with greater wage differentiation to reward the industrious.
- Reduction of the personal savings "overhang" through selective price increases for consumer goods (including food) and provision of "luxury" goods and services for the more affluent elements of the population.

Organizationally, Andropov probably will press for:

- Reorganization of the ministerial apparatus.
- Decentralization of some authority to large industrial associations.
- A devolution of responsibilities—particularly in consumer-related sectors—to provincial and lower administrative echelons.

Finally, in defining the permissible scope of indirect controls over production and resource allocation in the economy, Andropov's program is likely to stress:

- Somewhat greater attention than at present to strengthening the role of self-financing and economic levers.
- An increase in price-profit and market-based relationships within individual farms and between farms and the rest of the economy.
- Innovations in retail marketing practices designed to force state trading and consumer goods-producing organizations to be more responsive to consumer preferences.

The program will probably exclude large-scale extension of private entrepreneurial activity in the services and trade sectors. " "

#### Prospects

Although there are few sharp discontinuities between the set of measures outlined above and the Brezhnev legacy, there are new elements and important shifts of emphasis which—if they were to be implemented—would test Andropov's political skills to the utmost.

#### Support and Opposition

Andropov's likely agenda involves action in areas that in Communist systems have proved historically to be fertile ground for conflict within the regime or between the regime and society: industrial labor relations, consumer welfare, corruption, entrepreneurial activity in agriculture and agricultural organization, and the allocation of power among the main bureaucratic hierarchies.

The possible strategy just described is at cross purposes with the interests of both management and the population. From the standpoint of working people, Andropov's strategy might have certain positive features. It:

- Responds to a currently felt need for order and discipline and for a struggle against corruption.
- Provides an image of take-charge leadership.
- Offers less rhetoric and more "candor."
- Promises eventual economic progress.

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But it also has serious drawbacks. It would:

- Impose more coercion in the workplace.
- Mean that people would have to work harder to earn the same income.
- Jeopardize the opportunity for job mobility that provides Soviet workers with some leverage against management.
- Probably increase prices for at least some consumer goods, including food.
- Increase wage and social inequality.

On balance, Andropov's strategy would appear to lead in the near-to-medium term to greater tension in relations between the regime and the population

Managerial personnel probably welcome Andropov's general commitment to discipline, the work ethic, and more rational incentive systems. They would certainly appreciate a line that justifies greater privileges for them as a class. But many of them may feel anxiety for their own jobs, either because they are especially vulnerable to charges of corruption or because they see they may be replaced by younger and better trained personnel.

In attempting to implement the changes noted above in the Soviet economic mechanism, Andropov would probably encounter widespread noncompliance and bureaucratic obstruction. The constituencies upon which he could draw in combating this resistance appear to be narrow and rather diffuse. Some younger and more technocratically inclined cadres probably would see opportunities for policy movement and career advancement, while other officials, irrespective of generation and organizational affiliation, would favor a restoration of firm social discipline. Elements within the military-industrial-scientific sector might see the changes as promoting more rapid economic modernization and technological innovation. Perhaps some territorial officials and production association-level managers would be attracted by the idea of a devolution of economic decision making power. Meanwhile, individual institutes and policy advisers would perceive advantage in seeking Andropov's patronage. Finally, various individuals in the media and, institutionally, the KGB and the armed forces might support an Andropov program of economic change.

The party apparatus remains a critical element in the power equation. Yet Andropov's enthusiasm for the apparatus, of which he is the titular head, appears to be remarkably restrained. In his published statements before June, he largely avoided mentioning the party apparatus as a functioning institution. During his well-publicized visit in January 1983 to a Moscow machine-building plant, he ignored the enterprise's primary party organization altogether—allowing Victor Grishin, the Politburo member and Moscow City Party Committee first secretary accompanying him, the opportunity to score political points by calling attention to its role. Andropov also selected Nikolay Ryzhkov, a Gosplan official and former factory manager altogether lacking in any prior experience in the party apparatus, for the key job in the Central Committee Secretariat responsible for overseeing change in the economic mechanism. This posting may say something about his perception of the talent available in the party apparatus—although factional explanations of this unprecedented appointment are possible. At the June Central Committee Plenum, Andropov spoke in favor of less day-to-day intervention by the party apparatus in the government's running of the economy

The party apparatus itself would probably be divided over Andropov's strategy. Some party officials at all levels would no doubt gravitate naturally into Andropov's orbit, drawn by direct ties with him or—more likely—by connections with patrons who are his clients. The large number of party officials concerned with agriculture would probably not enthusiastically support Andropov until he displayed a greater concern for their interests than he has apparently done so far. Many party officials probably fear the anticorruption campaign and are anxious about KGB intrusion on their turf.<sup>16</sup> Those concerned with propaganda must sense Andropov's contempt and resent this—although some may welcome the promised revitalization of ideological activity. And any serious changes in the

<sup>16</sup> On

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role of the party apparatus vis-a-vis the government economic bureaucracy and in the role of the Central Committee branch economic departments would generate still further controversy in the party apparatus.

While Andropov's fellow Politburo members may have voted for him in the hope that he would get the country moving, some of them at least probably would be troubled by the strategy outlined above. The confrontational nature of Andropov's posture toward the working class, the likely shakeup of the Council of Ministers, the toleration of more market activity in agriculture, the possibly enhanced role of the KGB, the uncertain status of the party apparatus—all probably would provoke unease among the likes of Tikhonov and Chernenko, and probably others as well. Gaining support in the Politburo for passage and consistent implementation of such a program of change would not be easy for Andropov.

#### Andropov's Power

Andropov enjoyed sufficient backing within the Politburo to gain nomination as General Secretary in November 1982, and he probably can continue to rely on the cooperation of such key figures as Ustinov and Gromyko. Andropov probably sought, and stands to benefit from, the transfer of Grigoriy Romanov from Leningrad to the Central Committee Secretariat—a move that does, however, now place an eligible potential contender within striking distance of the General Secretaryship. Through the Secretariat, Andropov can strongly influence the Politburo's agenda and take the initiative in proposing personnel, policy, and organizational changes. His access to compromising KGB information about his colleagues probably gives him a potentially powerful, if risky, weapon for eliciting compliance with his wishes in the Politburo. And his nomination at the June 1983 session of the Supreme Soviet to parallel occupancy of the post of Chairman of the Presidium of the Supreme Soviet not only provided a visible demonstration to the Soviet elite of his political momentum, but also enhanced his ability to influence activities in the governmental apparatus.

Nevertheless, Andropov's power to institute change in the economic mechanism is still limited by:

- His relative lack of clients within the Politburo.
- The strong personal stake of Politburo members in restricting his autonomy in order to maintain collegial rule.
- The overlapping membership of three other figures beside himself—Chernenko, Gorbachev, and Romanov—in both the Secretariat and the Politburo, which prevents him from serving as the sole spokesman of each body to the other.
- The presence of people wedded to the status quo in key economic policy making posts in the Secretariat, Council of Ministers, and Gosplan.
- His relative lack of support within many sectors of the party and governmental bureaucracy responsible for economic affairs.

Apparently, Andropov did enter office with a mandate of sorts to "get things moving." This permitted him to make several top-level appointments, to promote some personnel shifts at lower levels, and to unleash the campaign aimed at combating corruption and strengthening labor discipline. After a rather fast start, however, the pace of movement appeared to slow down in the first months of 1983. Gromyko's appointment to the post of First Deputy Chairman of the Council of Ministers in March 1983, following the earlier promotion of the Azerbaïdzhan party first secretary and former KGB official, Gaydar Aliev, to another First Deputy Chairman position, suggested that Andropov might be seeking first to establish his influence in the Presidium of the Council of Ministers before tackling the Secretariat and Politburo. His occupancy of the Chairmanship of the Presidium of the Supreme Soviet, probable support for the promotion of Vitaliy Vorotnikov to the post of Chairman of the Council of Ministers of the Russian Republic, and

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emphasis on a demarcation of roles between the party apparatus and state bodies (see below) also suggest a "governmental" element to his maneuver for power. So far, however, he has not managed to score any major policy triumphs either abroad or at home, and he has not been able to fundamentally improve his power position within the Politburo—where Chernenko and others remain strong enough to resist his initiatives. Despite incremental gains at the June Central Committee Plenum, Andropov did not manage to effect any change among full members of the Politburo.

Chernenko's position appeared to have been weakened by illness—real or political—in April 1983. Yet his delivery of the report at the June Central Committee Plenum—in which he ignored Andropov's call for a new party program and defended the Brezhnev policy line, while confirming the existence of a split in the Politburo by his excessive protestation of leadership unity—indicated that he retained substantial support among his peers. Thus, Andropov still needs to alter the membership of the Politburo, further extend his control over the Secretariat, build support within the Central Committee, and undercut bureaucratic opposition to policy initiatives.

While this political breakthrough is probably a precondition for undertaking a new comprehensive economic program, Andropov's choices about what to seek in such a program are likely to strongly affect his prospects for radically improving his power position. In short, his economic strategy is, on the one hand, a hostage to the limits of his current political strength but, on the other, potentially the most important means of overcoming these limits. As a politician, Andropov is probably as interested—or more—in the power aspect of this equation as he is in the purely economic.

#### Andropov's Tactics

Andropov's words and actions indicate that he believes that to carry out a significant program of change in the economic mechanism, he must also initiate changes in the personnel field, in the policy-making process, and in political-economic doctrine. He also obviously must make a choice as to whether to pursue a strategy of phased or all-at-once change.

*Rejuvenation of Managerial Personnel.* From the outset of his tenure as General Secretary, Andropov made clear his intention to carry out a personnel shakeup. His objective has been to bring a somewhat younger, better qualified, more innovative, and, above all, more disciplined set of officials to power in the economic sector. While some movement is already visible in shifts of personnel in the central economic bureaucracy (and even more movement at lower levels), Andropov's pursuit of this aim has been inhibited by Politburo restraints on his discretion in personnel appointments. The shifts that have been made so far do not appear to be as dramatic as some Soviet officials privately anticipated. Andropov, however, appears to have significantly increased his leverage in the personnel field in late April 1983. He relieved the longtime secretary for personnel matters, Ivan Kapitonov, from control of the nerve center of the party's cadre appointment system—the Central Committee's Organizational Party Work Department—and arranged to have the new head of this department report directly to him.

*Change in the Policymaking Mechanism.* Several [ ] who spoke with Central Committee officials and other well-informed figures in Moscow in April 1983 were told that the new Central Committee Secretary, Nikolay Ryzhkov, had been ordered by Andropov to turn the Central Committee Economics Department into a base for elaborating comprehensive proposals for change in planning and management of the economy. Once these structural changes had been decided, the Department would substantially enlarge the role of the Central Committee apparatus in planning strategic economic policy. By the same token, however, the apparatus—along lines followed in Hungary—would be compelled to disengage from day-to-day intervention in economic affairs because of an alteration in the role of—or possibly, according to one account, even the elimination of—the existing branch economic departments of the Central Committee. Their monitoring function would be transferred to an upgraded Central Committee "Inspectorate," and perhaps to the KGB.

In principle, such a reorganization might increase the capacity of the Politburo and the Secretariat to examine options and steer the economy more effectively in accordance with broad political priorities, rather than react to bureaucratic compromises arranged below. A reduction in the supervisory role of the existing Central Committee branch economic departments, however, would inevitably increase the operational autonomy of the Presidium of the Council of Ministers. In the process, this would generate further pressure for the replacement of such officials as Chairman of the Council of Ministers Tikhonov and Chairman of Gosplan Baybakov by more vigorous and innovative leaders.

More importantly, such a shift in the role of the Central Committee branch economic departments could significantly reduce the capacity of the territorial party apparatus not only to interfere, but also to act as an arbiter and troubleshooter in economic management. Party territorial authority depends in no small measure upon the ability of local party officials to work through party channels in Moscow to influence ministerial behavior. Far more likely than a liquidation of the branch economic departments, thus, would be a compromise solution—for instance, their recombination along “program” lines (as suggested by the recent combination of responsibility for agriculture and the food industry into a single department).

**Doctrinal Renewal.** In the Communist political process, power and policy cannot be divorced from current doctrine. Proposed policy changes must be rationalized in terms of doctrine to be defended against attacks couched in doctrinal terms. In other words, major policy innovation requires parallel innovation in doctrine. Such innovation occurred in the 1930s, in the postwar period before Stalin's death (when a renewed major leadership purge and economic policy shifts were in the offing), and during Khrushchev's de-Stalinization campaign. This is all part of Andropov's life history. His early political experience involved potentially deadly struggles over policy issues supported by doctrine, and his career was closely linked for 30 years with that of Suslov—the top Soviet leader most sensitive to doctrinal matters. As a party official responsible for Bloc affairs, Ambassador to Hungary, and KGB Chief, Andropov was continually exposed to doctrinal maneuver in Eastern Europe and among the Eurocommunists.

Thus, Andropov's attack on ideological dogmatism and call for broad doctrinal change in his major *Kommunist* article should not be understood as “pragmatism” or dismissed as inconsequential, but rather should be viewed as an integral element in setting the stage for the economic policy changes and increased power he seeks. What Andropov is urging is abandonment of emotional fixation on doctrine that is irrelevant, not abandonment of doctrinal thinking as such. The task—as he sees it—is to consider in a coldblooded, analytic manner how fundamental ideological premises ought to be applied under changing historical conditions. The aim is a comprehensive, modern, more sharply focused doctrine, not an ad hoc “common sense” approach to economic policy making with some admixture of Western ideas. As became clear at the June Central Committee Plenum, Andropov's objective is to incorporate such doctrine in a new party program.

**Risks and Political Will.** Faced with weakness in his constituency base and the likelihood of serious resistance to strong measures from members of the Politburo, Andropov may not have the will—or the physical energy—to push through a contentious program of change in the Soviet economic mechanism. If he does, two tactics seem conceivable. The first would involve a gradual consolidation of power in which Andropov might:

- Expand his power over the span of several years or longer.
- Look to attrition as the main opportunity for altering the balance of power in the Politburo.
- Settle for a slow development of clientele among the Central Committee membership.
- Introduce phased changes in the economic mechanism as a consensus for them developed.
- Wait for the next regular party congress (1986) to push for major personnel changes and authorization of a comprehensive program of economic change.

The other tactic would strive for a quick political breakthrough in which Andropov might:

- Play up a “crisis in the economy” or international danger and competition with the West as the reason for rapid adoption of a scheme of change embodied in a new party program.

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- Use such issues (supplemented, perhaps, by charges of factionalism or corruption) to isolate Chernenko and other possible opponents in the Politburo and to gain fuller control over personnel appointments.
- Obtain Politburo consent for presentation of the program at a Central Committee plenum or special (extraordinary) party congress.
- Exploit the plenum or congress as an opportunity to eliminate opponents in the Politburo and convince others throughout the party and government of the wisdom of falling in line.
- Employ the program to spearhead a campaign of comprehensive economic change and to neutralize the opposition. }

Both of these hypothetical scenarios have serious weaknesses. The "gradualist" tactic, although politically safer, would delay action and mortgage movement on the economic front more closely to policy results in noneconomic areas such as foreign relations. It also would sharply pose the dilemma of incrementalism: although piecemeal change evokes the least initial resistance, it is most likely to bog down in bureaucratic noncompliance—as the fate of various Brezhnev initiatives demonstrates. The "all-out" approach, on the other hand, holds out the possibility of more rapid, comprehensive results but would involve high political risk.

Some straws in the wind suggest that Andropov might be tempted to take the incremental path. In his 22 November speech, he said that "It is necessary to act with caution here, to conduct experiments if need be, to make appraisals. . . ." The apparently regular discussion of a variety of economic problems by the Politburo, the adoption of separate decisions during the first months of 1983, and the failure to announce innovative steps in agricultural policy at an important April 1983 meeting of provincial and republic party secretaries or at the June Central Committee Plenum point in this direction.

Yet Andropov has displayed a willingness to make unorthodox personnel appointments and to challenge the vested interests and prestige of powerful organizations (such as the Ministry of Internal Affairs). He has also told workers face to face that egalitarianism is bad and that they must work harder—probably

with the aim of conditioning the population for stronger and longer lasting medicine. [ ] to Moscow have been told that, although Central Committee Secretary Ryzhkov intends to staff the new Economics Department and produce proposals for change in the economic mechanism without haste, he, nevertheless, has been tasked with formulating a comprehensive attack on the problem—which is what Andropov publicly called for at the June Central Committee Plenum. If Andropov is as intelligent as his Soviet boosters claim he is, and is indeed committed to changes in planning and management, he might conclude that changes must be introduced all at once if they are to be effective. And, on a number of occasions, Andropov himself has displayed a talent for concealing his intention to take decisive action by reassuring prospective targets that nothing much is going to happen.

Projections of future economic trends might not be sufficiently alarmist to galvanize Andropov into concerted action. However, forecasts of the inability of the economy to compete with the United States in fielding sophisticated military hardware and pressure from a concerned military establishment could conceivably do the trick. Andropov's assessment of his own life expectancy might also incline him to take greater risks.

What could happen by no means depends simply on Andropov. The interplay of power and policy in the Politburo does not have to lead to the political stalemate and gradualism evident in June 1983; it could drive Andropov to a more aggressive strategy. For example, initial pursuit of a measured, consensual approach to economic change could lead to little progress and a political crisis. Faced with a showdown in the Kremlin, Andropov might find himself compelled by circumstances to shift into high gear on "reform." Or, alternatively, a power struggle in the leadership arising for reasons not connected with economic issues could lead Andropov to embrace a breakthrough strategy in the economic arena as a weapon for defeating his opponents.

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**Possible Impact of Andropov's  
Likely Strategy**

The Soviets themselves declare—and hope, if not believe—that they are engaged in a protracted transition from a planned economic system focused on quantity at whatever cost to one focused on quality and efficiency. They imply that this shift will take several decades to complete and acknowledge many large obstacles in their path: the deeply ingrained attachment of managers and party officials to measurement of success according to quantity of output, the intricate dependence of the success of any individual change in management and planning on the simultaneous success of many other changes, and the difficulty of altering the economic mechanism at a time of increasing strain in the economy.

Western analysts are divided over whether such “within-system” change would improve economic performance, and whether the Soviet view of an economy transiting from “extensive” to “intensive” growth is simply self-delusion or propaganda. If one assumes—as many Western economists do—that half measures will not work, that the only medicine for what ails the Soviet economy is market socialism or even private enterprise, and that further “tinkering” may only make things worse, then one would conclude that the measures that Andropov is likely to adopt will be ineffective. But if, as we believe, “reforms” are divisible, treatment of the afflictions of nonmarket economies must include some nonmarket remedies, “reserves” of remediable inefficiencies in the system are large, and one’s definition of success includes stabilization of the situation or marginal improvement at a time of very low growth and large bottlenecks, then Andropov’s likely measures could have a positive—if hardly spectacular—effect.

Meanwhile, an all-out commitment by Andropov to economic change would almost certainly have tangible and immediate political effects. In the short run, at least, it probably would increase social tensions, disrupt the careers of many economic and party bureaucrats, and generate conflict within the leadership—with some probable, if unpredictable, impact on Soviet international behavior.