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Winners and Losers: Increasing Social Stratification in the Former Soviet Union

An Intelligence Assessment

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Winners and Losers: Increasing Social Stratification in the Former Soviet Union

An Intelligence Assessment

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Winners and Losers: Increasing Social Stratification in the Former Soviet Union

Key Judgments

Information available as of 11 November 1991 was used in this report.

Economic policies introduced under the banner of *perestroika* resulted in a general slide in Soviet living standards and a growing inequality between socioeconomic groups. In the pre-Gorbachev era the privileges of the elite had been largely hidden and income differences within the rest of society had been held down by state-set wages. *Glasnost* increased public awareness of social differences, even as Gorbachev's economic policies increased the gap between the rich and the poor.

Government measures introduced in the months before the coup to mitigate these circumstances were largely ineffectual. The lowest income groups—the elderly, single mothers, and couples with more than two children—found it increasingly difficult to find and pay for basic necessities. Middle-income groups—encompassing the traditionally favored blue-collar workers, professionals, and workers in the service sectors—struggled to maintain their accustomed standard of living. Both groups have watched with dismay the growing economic power of a widely condemned nouveau riche:

- According to some Soviet estimates, before the coup more than a third of the populace lived in poverty, and the high inflation this year could push a much wider segment into this category. Government can no longer guarantee a minimum standard of living and traditional social benefits such as free health care, job security, low-cost housing, and low, stable prices.
- The middle class finds its ruble earnings steadily losing value. Low-priority industries offer meager pay, poor working conditions, and few amenities, and even workers in high-priority heavy industries such as machine building and defense claim their lot has worsened.
- *Perestroika* did provide some the opportunity to become wealthy; the severe imbalance between supply and demand in the consumer sector has made cooperative enterprises, as well as black-market activity, more lucrative than ever. At the same time, weak law enforcement and greater access to foreign travel and hard currency have increased opportunities for acquiring wealth.

- Income differences among the republics have increased because of *perestroyka's* unequal impact on socioeconomic groups. The Caucasus and Central Asian republics, with large rural and youthful populations, slipped even further behind other republics in terms of living standards. The income gap within republics has also widened, with the southern republics registering a much higher degree of inequality than their Slavic and Baltic counterparts.

The economic disarray left in the wake of the coup will magnify these trends in the short term. Republic economies will undergo severe dislocations with the accelerated introduction of market reforms, growing interregional barriers to trade, and localized disruptions from continued ethnic strife. Inflation is likely to increase dramatically in coming months under pressure from rising budget deficits and excessive growth in the money supply. Government efforts to institute new forms of social guarantees will not be sufficient to prevent a deterioration in living standards for a large segment of the population, particularly lower- and middle-income groups. Moreover, the implementation of reforms to cut costs and stimulate competition will not only significantly reduce the social services that enterprises have traditionally provided to workers, but will also lead to large-scale layoffs and the problem of funding unemployment benefits. Conditions for the entrepreneurial class, on the other hand, are likely to improve in the Baltic states, Russia, and probably at least a few other republics as bureaucratic barriers to entrepreneurial activity are removed.

Increasing social stratification will contribute to greater social and economic instability, particularly as the number of homeless and unemployed increases. Moreover, the public's lingering egalitarian ethic and desire to avoid the social costs of economic reform will greatly complicate government efforts to stabilize and radically reform the economy. Trade unions and other groups, for example, are likely to oppose measures that would reduce job security and increase prices.

Nonetheless, while social stratification is likely to increase in the near term, prospects for economic reform over the long term have greatly improved, and reformers hope that the institution of a market economy will eventually change the equation of winners and losers. Under the best of conditions, the black market would give way to more legitimate forms of

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entrepreneurship. Those with energy and initiative would be rewarded by a higher standard of living, while a stronger economy would provide the means to support those least able to take care of themselves. With the privatization of land and decontrol of food prices, conditions in rural regions would also improve, and the terms of trade between urban workers and rural farms would shift dramatically. Before accomplishing such a transformation, however, the republics will face a long and difficult transitional period in which they will have to change the attitudes and work ethic of the population and overcome the corruption that has become pervasive.

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Scope Note

This Intelligence Assessment describes the impact of *perestroyka* on selected socioeconomic groups in the Soviet Union, providing a profile of the country inherited by republic leaders after the August coup attempt.



Winners and Losers: Increasing Social Stratification in the Former Soviet Union

Introduction

Long before the abortive August putsch, rising social inequality had become a focal point for criticism of Gorbachev's economic reforms from traditionalists, trade unions, and others. *Perestroika* produced winners and losers, provoking sharp criticism from a populace inculcated with the belief that Soviet society should be egalitarian—even in poverty—and that government should provide a certain level of cradle-to-grave economic security to its citizens.

Before Gorbachev, social stratification was less obvious to the population. The *nomenklatura*—Communist Party members holding prestigious positions—enjoyed a highly developed system of privileges closed to and largely hidden from the general population. These perquisites included special stores, schools, recreational facilities, and hospitals, as well as foreign travel. Wealth was measured more in influence and access than in rubles, and the *nomenklatura* augmented their lifestyles through the use of contacts, influence, and bribery.

Below this stratum of society, income differences were held down by state-set wages that allowed much less differentiation between occupations than exists in market economies. High-priority industries such as machine building generally offered better pay and benefits than traditionally low-priority consumer industries or the services sector, but white-collar professionals were paid little more than blue-collar workers. Some people earned high incomes illegally in the unofficial "shadow" economy, but they were proportionately few and kept their wealth carefully hidden to avoid detection by the authorities. Under Gorbachev, however, *glasnost* increased public awareness of social differences, even as his economic policies greatly increased the gap between the rich and the poor.

Factors Affecting Social Stratification Under Gorbachev

Loss of Fiscal-Monetary Control

During the Gorbachev era, a rising budget deficit and irresponsible fiscal and monetary policies generated inflation and severe shortages. The government printed rubles to cover the costs of expensive investment programs, loss-making enterprises, revenue losses from the antialcohol campaign, and more generous social programs. Because this increase in the money supply was not backed by a corresponding increase in the production of consumer goods and services, it increased inflationary pressures. Price decontrol—which could have restored equilibrium to consumer markets—was delayed, and consumers emptied the shelves in state stores, where prices were artificially low. Meanwhile, largely unregulated prices in the consumer farm markets (CFMs) and cooperative stores shot up rapidly, and black-market prices skyrocketed. In the year preceding the coup attempt, retail prices had roughly doubled. Rising prices and shortages had the heaviest impact on low-income workers, who were already spending the bulk of their income on basics, and on non-wage-earners with no access to most of the special distribution systems that proliferated as deficits worsened.

Wage Reforms

Wage reforms that went into effect in January 1987 reversed a longstanding trend of wage leveling. Gorbachev hoped that increased wage differentiation and a closer link between pay and productivity would spur greater work effort. New pay scales were designed to reward more skilled and productive workers, particularly top engineering and technical workers in machine building. In addition, the 1987 Law on State Enterprises gave managers more discretion in setting wages and bonuses.

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The reforms failed to give managers incentives to economize on labor costs, however, or to insist on higher standards of productivity. In practice, enterprises used their new wage-setting authority to attract and retain workers regardless of performance. The growth of labor activism reinforced this trend, as workers used strikes and the threat of strikes to gain improved wages and benefits. White-collar workers got the highest increases, but the wages and salaries of all categories of workers rose rapidly; in the first half of 1991 money incomes were 44 percent higher than in the same period a year earlier.

Unleashing the Private Sector

During 1986-88 the Soviet Government passed legislation legalizing a wider range of individual private enterprise and encouraging the formation of cooperatives,² particularly in the area of consumer goods and services. The intent was to achieve a rapid increase in the amount of goods and services available and thereby raise living standards for the entire population. These measures allowed the emergence of a new group of high-income earners.

Although cooperatives did provide some consumer goods and services, this boost was smaller than hoped for because of a series of restrictive amendments to the Law on Cooperatives, changing tax laws, supply difficulties, obstruction from local officials, and negative popular reaction to private activity. Many cooperatives simply bought or stole cheap state goods and resold them at much higher prices. Other cooperatives avoided harassment by tying themselves closely to state-controlled firms and producing goods and services for these enterprises rather than directly for the public. According to [redacted] in early 1991, only 15 percent of what the cooperatives produced was sold directly to the public.

Growing shortages and higher incomes encouraged growth of legal and illegal private economic activity, which diverted more goods away from state stores. High prices and high profits transferred money from workers to entrepreneurs, black-marketeters, and racketeers. Private incomes began to dwarf state wages.

² Defined as voluntary, self-financed, self-managed, profit-sharing groups of at least three citizens, registered with local authorities.

Even with more rapid wage increases, the average state worker's wage still trailed that of the average cooperative member. Moreover, much private and shadow-economy business transferred to a hard currency basis, promoting the development of a de facto parallel currency that further devalued the rubles earned by state workers and pensioners.

Economic Restructuring

Gorbachev's shifting investment policies also contributed to growing differentiation in living standards. His strategy initially called for sharp increases in investment, especially for heavy industry, to modernize equipment and introduce new technology. Funding was to be focused on the renovation and retooling of existing industrial capacity, particularly in machine building and metalworking. This policy channeled more resources into the central manufacturing regions, where these industries were already established, and left fewer resources for the underdeveloped southern republics. This was reflected in slower job creation and slow growth in wages. In a region that desperately needed new industry to absorb rapid population growth, low investment led to rising unemployment and poverty.

In 1987 the leadership began to scale back investment growth in heavy industry and refocus it toward the production of food and consumer goods. The leadership also called for expanding defense industry production of consumer goods. These shifts in investment, along with cuts in defense spending that began in 1989, eroded the traditionally privileged position of workers in these industries. Many defense workers, for example, openly complained that conversion to consumer goods production downgraded their pay and status.

Regional Autonomy

The devolution of more economic authority to republic and local governments and the economic decline led to a Balkanization of the union market that helped to increase regional disparities in the supply of food and consumer goods. To protect their own consumer markets, local officials erected barriers to trade,

forbidding the export of certain deficit goods or limiting the purchase of some items to local residents only. Agricultural regions increasingly preferred to use their output locally or barter it for scarce consumer goods rather than sell it to the state for devalued rubles. The Soviet Union's former "showcase" cities, Moscow and Leningrad (St. Petersburg), and centers of heavy industry in the Urals suffered most. With a weak local agricultural base, few attractive goods to barter, and panic buying by the population, these cities became the most poorly stocked of urban centers.

Social Guarantees Disintegrate

Products and services offered to citizens were never abundant or of good quality, but in the past consumers were able to count on the state satisfying at least minimal requirements at little or no cost. During the years preceding the coup, however, many of the much-vaunted benefits of a planned economy—including free medical care, a guaranteed job, a low-fixed-rent government apartment, and low prices—became increasingly problematic.

Many former free or low-cost goods and services are either no longer available or must be bought at a much higher price. Decent medical care must be paid for dearly with bribes, and many medicines can be bought only on the black market, at eight to 10 times the state price. Obtaining a separate apartment is harder than ever. A decline in the production of building materials, in part due to the breakdown in traditional supply networks, has resulted in a substantial fall in housing completions and an increase in already long waiting lists for apartments. Indeed, Gorbachev's "Housing 2000" program—which set the goal of providing every family with a separate house or apartment by the end of the century—was abandoned even before the coup. Even before the April 1991 increase in retail prices, consumers could no longer count on state stores to provide necessities at low, stable prices. Many goods that were once available in state stores were available only at high cost on the black market or in cooperatives or consumer farm markets.

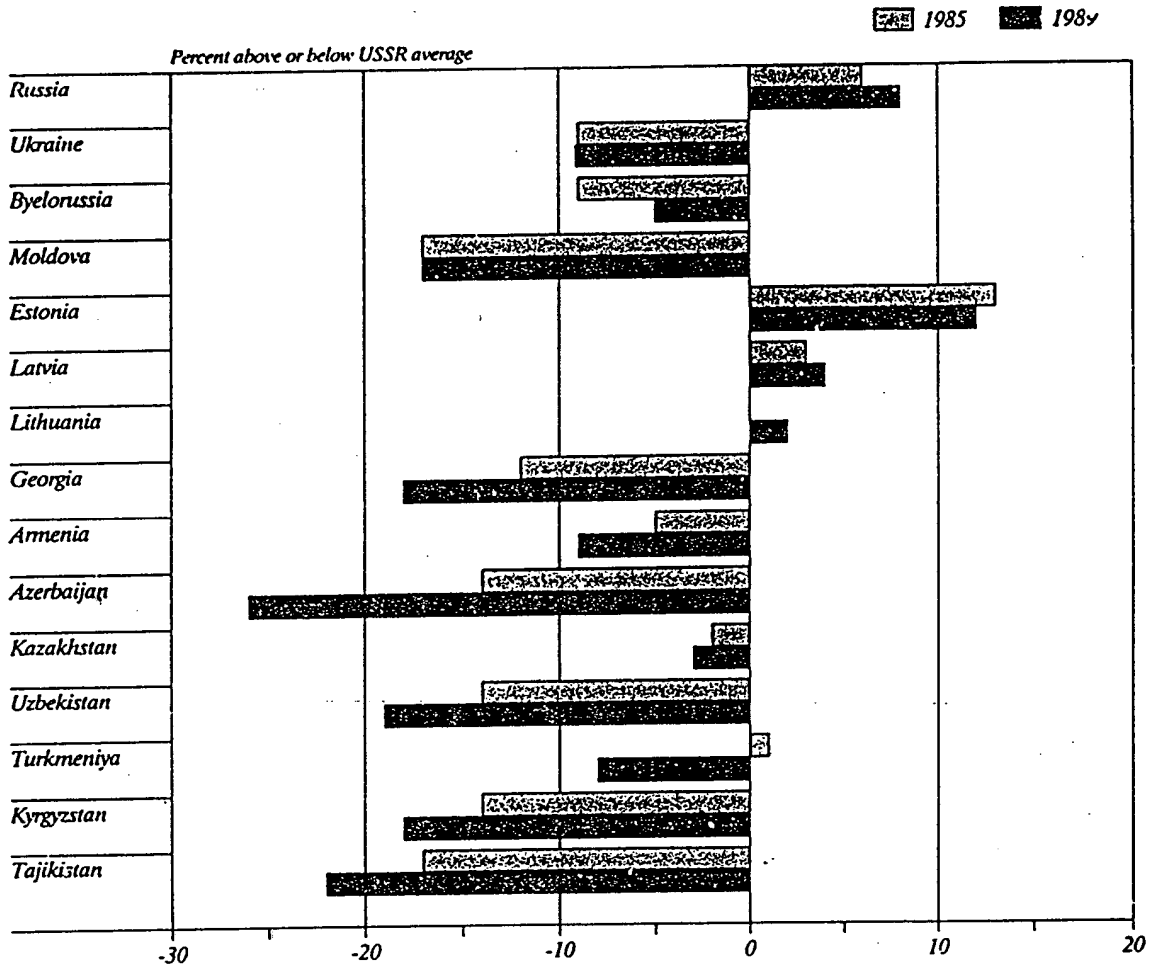
A survey published in the Soviet business journal *Kommersant* that tracked consumer buying habits found that few could regularly afford alternatives to state stores. The survey, which came out before retail prices were increased in April 1991, found that only one person in 10 had the means to regularly shop in cooperatives or on the black market. Another 60 percent of the population used state-run stores and shopped in cooperative stores only when unavoidable. The black market or farmers' markets were beyond their means. Another 30 percent of the population bought only the cheapest goods, would endure long lines, and went without if they could not find what they needed at state-run outlets. With the April 1991 rise in retail prices in state stores, this latter category of consumers had to struggle even harder to make ends meet.

Government Response. In part as a response to popular pressure, both central and republic governments took measures in the months preceding the coup to reduce growing inequities. Measures were introduced in an attempt to cushion lower- and middle-income groups from the impact of inflation and to ease popular discontent. These included increased pensions, more financial aid for families with many children, and an attempt to crack down on the lucrative black market. These measures were largely ineffectual, and they accelerated inflation and disarray in consumer markets.

Status of Selected Socioeconomic Groups

The economic dislocations that resulted in part from Gorbachev's economic policies had a disproportionately heavy impact on lower income groups, while Gorbachev's loosening of controls on private economic activity allowed a small segment of the population to become relatively wealthy. The changing fortunes of these socioeconomic groups also had an impact on regional differentials in living standards. Republics with a large rural component and a high percentage of

USSR: Average Monthly State Wages by Republic, 1985 and 1989



Under Gorbachev, income differences among the republics increased. The change in average monthly wages since 1985 shows that the Slavic and Baltic republics were clear winners, while the Caucasus and Central Asian republics, whose wages were already below the country average, slipped even

further behind. In addition to relative differences among republics in wage compensation, income differences within republics also widened. Differentials tend to be the widest in Central Asia and the Caucasus, where the mean wage is low and the shadow economy is particularly active

dependent children in their populations, for example, sank even lower compared with other republics, expanding the already wide gap between the haves and have-nots inherited by the Gorbachev leadership (see inset).

The Lowest Income Groups

Soviet estimates of the exact number living in or near poverty have varied greatly. The official poverty line of 78 rubles per month—set in June 1989—put roughly 40 million people or 14 percent of the population in poverty that year. In August 1990 reform economist Stanislav Shatalin called a poverty line of 80 rubles a month a “fantasy” and gave a figure of 120 to 130 rubles a month as a more realistic level. A month later the official trade union cited 140 rubles a month as the poverty line, a figure that would put close to 40 percent of the population in poverty. Despite compensation paid by the government, the price hikes put into effect in April 1991 probably raised the poverty line to over 200 rubles, and—because the population was paid only partial compensation for the price increases—pushed an even wider segment of the population into poverty. Indeed, the Soviet newspaper *Komsomol'skaya pravda* reported in May that the average Soviet citizen spent just under 200 rubles monthly buying essential food, with an equal amount needed to buy other necessities.

Families With Many Children. According to Soviet studies, of those living at or below the official Soviet poverty line, half are families with three or more children, and another 30 percent are single-parent families and young families with fewer than three children. Before the coup, 75 percent of all families with more than three children were living at the poverty level, according to one Soviet economist. A large share of the poor are in the rural regions of Central Asia, where the average family size is approximately six, twice that of the Slavic republics and Baltic states. Poverty in the southern republics has been exacerbated by low investment in health, education, housing, and other social services.

Food shortages have prompted high-level concern over child nutrition. The RSFSR Supreme Soviet has issued a decree attempting to bolster baby food production, declaring that poor diet is leaving children susceptible to deficiency diseases such as anemia and rickets. [redacted] told [redacted] in early 1991 that infant formula and powdered milk are priority items on the wish list for food aid.

Other shortages pose problems as well. Children's clothing and shoes, which are unprofitable to produce, all but disappeared as enterprises began to make more of their own decisions. The Soviet newspaper *Rabochaya tribuna* reported in January that, because of this severe shortage, prices for children's clothing on the black market had risen to three or four times the state price. There are also shortages of school notebooks, pencils, toys, and candy.

The Soviet system had traditionally guaranteed children free health care, day-care, and schooling, but the infrastructure for these services is weak and deteriorating rapidly. Child day-care facilities are overcrowded, and one-fourth of all schoolchildren must study on a second shift or even a third shift. Medical facilities are poorly equipped and often unsanitary. Moreover, in the last two years completions of general education schools and vocational technical schools fell substantially, and completions of hospitals and pre-schools also declined. According to official Soviet statistics, unsatisfied demand for places in preschools has increased 130 percent since 1985.

The USSR's high rates of infant mortality have been on a downward trend in recent years, according to official statistics. But child health has suffered from medicine shortages, declining quality and variety of diet, and contamination of food, air, and water by pollutants. Indeed, signs of backsliding are apparent. [redacted] have reported that some regions have experienced sharp increases in the incidence of diseases such

as jaundice, acute diarrhea, salmonella, acute influenza, and leukemia among children in the last two years.

Youth: An Uncertain Future. Young adults have found it increasingly difficult to establish themselves in society. The under-30 age group makes low wages and is particularly vulnerable to inflation. Moreover, young workers are often the last to receive goods distributed at work and the first to be laid off during production stoppages.

One of the most immediate problems for the young is housing. The search for a place to live may occupy nearly a decade, and there is little hope that the wait will be shortened. Housing completions have been declining for more than two years and fell precipitously last year. According to an economist at the former State Planning Committee (Gosplan), at the beginning of 1989 there were 14 million families—46 million people—on the waiting list for improved housing. Another million people were added to that list in 1990.

Those who will not or cannot live with parents often wind up in workers' dormitories or youth hostels where living conditions are usually miserable. Soviet experts estimate that 12.5 million young people live in crowded workers' dormitories—loss of a job would cause them to lose their space—and another 6 million working young people live in youth hostels. Some married couples, who cannot stay in dormitories or hostels, rent private rooms. Such renters have no legal rights or protection and, according to the Soviet press, the premises they must rent are sometimes unfit for habitation and include "barns, bathhouses, and even slightly upgraded chicken coops." Moreover, young families, particularly those with children, are forced to move frequently by private landlords and must often wander from place to place in search of housing. According to the Soviet press, half of all divorced young couples broke up because there was nowhere for them to live. In the most extreme cases, a young person may become homeless. According to Soviet press reports, it is no longer a rarity to see a homeless person under the age of 30—every third person now picked up for vagrancy is in that age bracket

The Homeless. Officially, there were 169,000 homeless in the Soviet Union in 1989, but one Soviet study estimated the number to be 2 million and rising. The homeless live in city dumps, basements, attics, abandoned buildings, buses, and railcars. Their plight has often resulted from the loss of a residence permit. The Soviet residence control system inherited from Stalinist times is soon to be scrapped, but local governments in major cities are still imposing restrictions on the number of newcomers. One Soviet press article describes the unfortunate consequences of being an unregistered, officially "unaccounted for" citizen:

The loss of registration in our day is almost the same kind of catastrophe as it is to lose a ration card during wartime . . . a person is deprived of all his rights—the right to work, the right to receive housing, medical service, or an education. And also, recently, the right to receive food products, since the coupons are issued only at the place of registry.

Among those who have not had residence permits are refugees from ethnic violence, school dropouts, young people released from the military who do not return to their hometowns, people evicted from condemned buildings, ex-criminals, and young workers in enterprises that ignore the need for documentation in order to hire more labor. In large cities there has been a category of workers called *limitchiki* who have not been allowed to register for housing until they work a set number of years. In practice, most of the *limitchiki* have worked for many years without obtaining housing and have been considered to be virtually slave labor by their employers. According to [] press reports, they live in squalid factory barracks or communal quarters, where several families share a kitchen and bathroom.

The Unemployed. The former Soviet Union had no systematic way to calculate the number of unemployed, and estimates varied greatly. The State Committee on Labor and Social Questions says that there were 2 million unemployed before the coup. Gosplan economist Vladimir Kostakov put the number of

unemployed, both real and disguised, at about 10 million—or about 6 percent of the civilian work force. Central Asia and the Transcaucasus account for about half this number. In 1989 alone, 1.3 million people lost their jobs, according to the State Committee for Statistics (Goskomstat). [

] noted that the state was unable “either to defend from the administration’s arbitrariness those laid off, or to provide them with equivalent work, or to organize retraining for them.” Those hit most frequently were young, inexperienced workers, women with children, and people approaching retirement age.

Pensioners. Pensioners, the elderly, the handicapped, and dependents make up about 20 percent of those under the Soviet poverty line, according to Soviet studies. There are nearly 60 million pensioners in the Soviet Union, and 44 million of these are old-age pensioners. Those living on their own, an estimated 9 million, are in the worst straits, but even those who live in state care facilities often lead a miserable existence. [

] found “dirty mattresses moldy from moisture, half-collapsed walls, toilet stalls ankle-deep in water, beds jammed tightly together with bedpans next to them, and wretched old people or cripples on crutches wearing some kind of ragged cast-offs instead of clothing.”

Pensioners are supposedly a “protected” category of citizens, but government decrees have proved a poor shield against shortages and inflation. Enterprises are under state orders to produce a certain volume of goods for the elderly at “socially low” prices and have been prohibited from raising prices by decree of the USSR Council of Ministers. Nevertheless, enterprises have cut production of these unprofitable goods. The private sector and the shadow economy have not filled the gap because it is not worth their while to deal in cheap consumer goods. [

] remarked that “speculation with socks is futile.” According to figures from Goskomstat, the average prices of commodities traditionally purchased by low-income groups—including potatoes, bread, and flour—have risen at a particularly fast rate. In some cities even the city cafeterias, long a source of inexpensive meals for the poor, often have no food to serve. Moreover, the daily task of searching for and queuing for goods is

especially arduous for the elderly. Often it is the pensioner who must queue for hours while adult children work. Some pensioners, however, use this as an opportunity to supplement their incomes by charging a fee to stand in line for others.

A nearly catastrophic shortage of medicines has also made life more difficult for the elderly. This shortage developed when many pharmaceutical factories were shut down for environmental reasons by republic and local governments. The situation was exacerbated by a decline in medicine imports from East European suppliers who are now seeking hard currency customers. As a result of the shortage, most medicines are now available only on the black market, where prices are far beyond what pensioners can pay, averaging eight times higher than state prices, according to surveys conducted by the journal *Kommersant*.

Rural Residents. Rural living standards have traditionally lagged well behind those of city dwellers. According to Soviet statistics on rural and urban incomes, this gap narrowed substantially in the decades before Gorbachev took power but appears unchanged since 1985. According to official Soviet family budget surveys, the average per capita household income for state farm and collective farm workers was 80 percent of that for all workers and employees in 1989, compared with 81 percent in 1985. The countryside also offers far fewer and lower quality goods and services than the city. Many rural settlements lack electricity, telephones, stores, banks, and other consumer services—52 percent of villages, for example, have no medical facilities. Per capita retail trade turnover in rural areas is 44 percent that of urban areas.

The standard of living in rural regions varies substantially from region to region. In the former Baltic republics, the average earnings of collective farm workers were well above those of state blue- and white-collar workers. In contrast, depopulation of villages in the Russian heartland and overpopulation in rural Central Asia have contributed to widespread poverty. The newspaper *Sel'skaya zhizn'* (Rural Life) even set up a charity fund in 1991 to

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alleviate desperate poverty among elderly rural residents in dying Russian villages, where a steady drain of youth has left few able-bodied workers. In Central Asia and the southern part of the Kazakh Republic, rapid population growth, unemployment, declining per capita production of food, and the primitive state of health care have produced widespread poverty in the region. In 1989, according to *Pravda*, the average per capita monthly income in rural parts of the Fergana Oblast was about half that of state and collective farm workers in the country as a whole. Food production in the region has also suffered because of overcultivation of cotton. Even though a large proportion of its labor force is in agriculture, Central Asia is not self-sufficient in food. According to official statistics, per capita food production in the region is far below the national average.

The breakdown of the centralized distribution system in the two years preceding the coup has increased tensions between the city and the countryside, leaving rural dwellers in the more productive agricultural regions in a relatively better position while increasing the misery of the poorer rural regions. Some food-producing regions refuse to deliver their products to centralized stocks, and foodstuffs go onto the market within the region or are used to barter for consumer goods. On the other hand, while rural dwellers have traditionally relied on forays to the city to fill many of their needs for household goods and some foods, a proliferation of "passport" rationing systems in many urban areas has limited purchases to city residents.

Moreover, according to the Soviet press, the consumer cooperative system, a financially autonomous organization that supplies goods to the countryside, has been cutting back service in some regions, particularly the non-black-earth region. Because of shipping charges and the large number of foodstuffs that must be purchased at contract prices, prices also rose more rapidly in the consumer co-ops than in state stores in urban areas.¹ Rural areas suffered another blow at the beginning of 1991, when increases in wholesale prices raised the cost of inputs such as fertilizers and

¹ To even out this discrepancy, the April 1991 price increases administered by the central government did not apply to consumer cooperatives.

materials and increased the prices of services delivered to rural areas, reducing profitability of agricultural enterprises and farms.

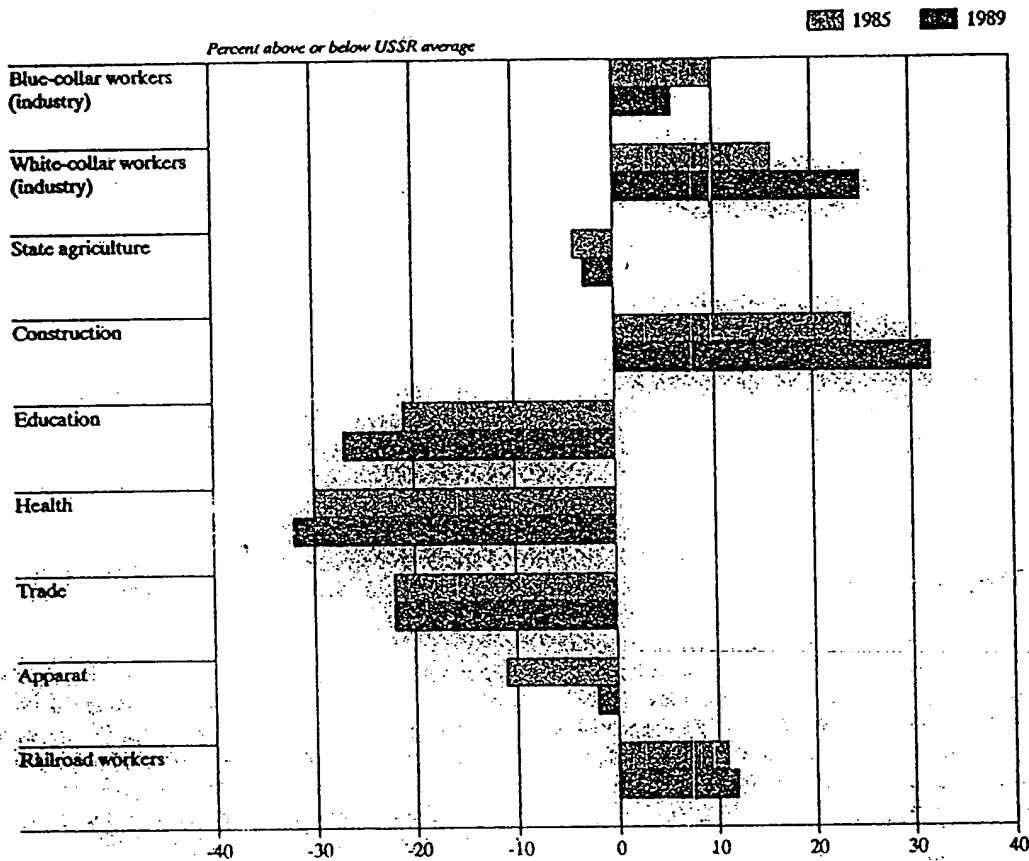
Military and Former Military Personnel. The return of Soviet troops stationed in Eastern Europe is exacerbating the acute shortage of housing for military personnel and focusing increased attention on low pay and living standards in the military. Before the coup, the military housing shortage reached nearly 300,000 units. The complete withdrawal of troops from Germany may increase this figure by up to 50 percent, according to some military sources. The Soviet-German agreement on stationing earmarks 7.8 billion marks to build approximately 36,000 apartments in the Soviet Union, but construction has not yet begun and there may be lengthy bureaucratic delays ahead. The overall housing situation has been further aggravated by localities' refusals to meet targets set for the allocation of living space to military personnel, reservists, and retirees. This problem is a major morale issue for servicemen. According to [officers spend long periods under difficult conditions, have no opportunity to acquire housing, and no provisions are made for them at the end of their careers.

Movement toward regional autarky created other difficulties for military families. Those stationed in peripheral republics complain of harassment by local officials and local populations. Wives of servicemen have difficulty getting jobs, leaving families with one income, and often there are no places for their children in local schools and nurseries. In the former Baltic republics, local inhabitants received a subsidy when prices rose, but servicemen did not, while in Armenia officials have refused to issue food coupons to servicemen and their families. There are persistent reports of serious, widespread food shortages throughout all segments of the armed forces. Clothing is also becoming a problem as enterprises renege on deliveries of uniforms and boots and other items.

The Shrinking Middle-Income Groups

Hard times have shaken the security of the middle- and lower-middle-income groups—members of the

USSR: Relative Levels of Earnings in Selected Sectors, 1985 and 1989



teaching, medical, and cultural professions, and workers in state enterprises. Some subgroups, however, have fared better than others, not only in ruble earnings (see chart), but, perhaps more important, in access to scarce goods, either through special distribution systems or through the opportunity to steal or take bribes. Many low-paid shop clerks, for example, make a good living selling products under the counter. Soviet press reports indicate that most middle-class

groups, however, have suffered a deterioration in living standards, and the only clear winners seem to have been cooperative workers and black-marketeers.

Cultural, Medical, and Educational Workers. Those who are working for the state but are not attached to productive enterprises—teachers, medical workers, and cultural workers—have had less rapid rises in

income and have less access to deficit goods. Pay increases approved under Gorbachev for those employed in health and education have not been enough to raise the relative standing of these traditionally poorly paid professions. The introduction of market reforms is likely to put them in an even more difficult position. In Estonia, where the government instituted sharp price increases on foods, these state employees struggled to make ends meet. According to an observer, while Estonian enterprises distributed goods, meal coupons, or direct financial aid, "it is much harder for . . . all those people who are paid from the republic budget. Nobody has any money for them: neither the government nor the industries."

Workers in Low-Priority Industries. While some enterprises are distributing goods and building housing and other facilities for workers, low-priority industries such as the light and food industries offer low pay, poor working conditions, and few amenities. Unfavorable economic conditions have cut the funds they have traditionally used to build housing and provide services for workers. Moreover, a lack of hard currency to buy imported materials has led to supply shortages that have forced production stoppages and layoffs in the textile industry since 1990. This situation led the Russian Republic Trade Union of Textile and Light Industry Workers to threaten a strike. The action was called off when the RSFSR government granted concessions to the industry, including tax breaks and hard currency for the purchase of raw materials. Nevertheless, the Soviet press reported in April that work at more than 400 textile plants had closed because of the inability to import supplies.

Workers in High-Priority Industries. Despite their more privileged position relative to other state employees, even the workers in traditionally high-priority heavy industries such as machine building complain that their lot worsened under *perestroika*. [

] stated that workers at the majority of defense plants have had sharp pay cuts due to reduced production of costly military equipment. Although workers in key industries commonly receive additional allocations of food and consumer goods, they complain that these distributions are not enough to go around, are administered unequally, and are often limited to luxury

items. Moreover, workers see their social status in jeopardy. According to one, "in general, the prestige of the working class has fallen. . . . Now the first-class workers have left the enterprise for the cooperatives or who knows where. . . . And here I am—a two-time hero of socialist labor—and I cannot buy a suit: none are being sold."

The Elite, the Enterprising, and the Unscrupulous Old Elite. As the privileges of the *nomenklatura* came under attack in the era of *glasnost*, a number of perquisites were officially abolished:

- An October 1989 resolution of the USSR Council of Ministers abolished the Fourth Chief Administration of the USSR Ministry of Health, which serviced the elite, and ordered its facilities converted to serve children, veterans, and the disabled.
- In February 1990 a resolution of the CPSU Central Committee cut back on the allocation of state dachas and reduced privileges for retired party and state leaders.
- Trade Association No. 208, which furnishes foodstuffs to the upper echelons of power, was directed to supply health facilities and children's homes.

In practice, however, the *nomenklatura* retained most of its privileges up to the time of the coup. In July the USSR Supreme Soviet Committee on Privileges presented the results of a nine-month study that found abuses were still pervasive. For example, in the Ministry of Defense, expensive dachas were still being built for top personnel who paid only nominal rents. The report also complained that dachas and other state property are increasingly being sold to officials at bargain prices, a practice dubbed "wild privatization."

The Nouveau Riche. With the relaxation of restrictions against private activity and the boom in the shadow economy, a new variety of wealth had begun to emerge during the period of *perestroika*. According to Goskomstat, by yearend 1990 there were 260,000 cooperatives employing 6.2 million people.

~~Confidential~~

The average monthly income of these workers at the beginning of 1991 was over 400 rubles per month, while the average state wage was 270 rubles. According to unofficial Soviet estimates, there are now more than 500,000 people in the country who earn more than 3,000 rubles a month. The number of ruble millionaires, although small, has also been growing rapidly, according to Soviet press reports. Soviet experts last year put the number of millionaires at 100,000 to 150,000.

Some of the wealthy—prominent entertainers and successful cooperative managers, for example—are legal millionaires, but others have earned their wealth in the booming shadow economy. Severe imbalance between supply and demand in the consumer sector has made black-market activity more lucrative than ever, while weak law enforcement and new access to foreign travel and hard currency have opened up opportunities for acquiring wealth. According to official Soviet statistics, the number of crimes for gain in the economic sector rose by 77 percent in 1990 over the previous year. Organized crime has also made it difficult for private entrepreneurs to acquire wealth without paying dues to the criminal world. Racketeers prey on the new cooperatives, shaking down owners for protection money. Cooperatives have also been used as fronts for scams and illegal activities, according to the Soviet press.

As the ruble loses value, black-marketeers and cooperatives are converting their operations to hard currency, creating a new and exclusive system of elite privilege. Legislation liberalizing the use of hard currency by ordinary citizens has facilitated this process. According to [] "in St. Petersburg a wide range of stores has sprung up, such as ice cream parlors, beer halls, and even beauty shops, which accept only hard currency. These establishments are heavily frequented by a clientele that earns its money through black marketing and prostitution."

The new rich are feared and despised by lower-income groups. Ethnic tensions and racial prejudice feed resentment of well-to-do private traders—those from the Caucasus are particular targets. In the Russian city of Krasnoyarsk, for example, citizens demanded

expulsion of all Azerbaijanis because of high consumer farm market prices for fruit and vegetables. One Soviet commentator, writing in *Moscow News*, notes that, while the nouveau riche are not outrageously rich by Western standards, the contrast with the rest of the population is galling:

The Soviet rich spend their millions on what is widely available to ordinary people in the civilized countries but . . . an upstart is an upstart anywhere, whether in the wild West at the turn of the century, or on a Moscow farm market today. . . . Alas, the general prosperity always begins with this tasteless and obnoxious luxury for the few against the background of poverty and even destitution of the many. The descendants of goldiggers, adventurers, and brawlers are today's Harvard graduates, computer magnates, and ideologists of social and ecological movements. One can only hope that . . . our capitalist sharks will not take a hundred years to turn into postindustrial entrepreneurs.

The old elite—bureaucrats, apparatchiks, and plant managers—tapped into this new wealth by collecting bribes for various services for both shadow economy operators and cooperatives. Some held dual jobs. For example, a cooperative member might work during the day as a high official in an enterprise that provides supplies to the cooperative. According to []

↳ "power as such—administrative, economic, legal, and other—is being sold off."

Outlook for Social Stratification After the Coup

The initial impact of the economic disarray left in the wake of the coup will be to magnify some of the trends already evident in income distribution. The economies of the republics will undergo severe dislocations with the accelerated introduction of market reforms in some areas, growing interregional barriers to trade, and localized disruptions from continued ethnic strife. Those in the lowest income groups, particularly those on fixed incomes, will suffer most from these economic disruptions.

Inflation is likely to increase even more dramatically in coming months as prices are freed. The breakdown of the center's authority will probably increase the budget deficit because republics have shown little inclination to keep spending in check. The loss of central control will also throw monetary policy into disarray, particularly if republics introduce their own currencies.

In the face of rampant inflation, government efforts to institute new forms of social guarantees will probably not be sufficient to prevent a deterioration in living standards for a large segment of the population, especially those on fixed incomes. Indeed, the issue of who pays for pensions and other welfare measures has yet to be decided. Many enterprises and republics have refused to contribute to the USSR pension fund this year, making it likely that funding will increasingly come from republics already suffering budget deficits of their own. The differing ability of republics to pay for these benefits will add to regional differentiation in living standards.

Lower- and middle-income groups will also suffer from economic belt-tightening at the workplace. The implementation of reforms to cut costs and stimulate competition will significantly reduce the social services that enterprises have traditionally provided to workers and will lead to large-scale layoffs—leaving the government with the problem of funding unemployment benefits. According to an opinion poll conducted last July among over 3,000 people nationwide, respondents felt that those most likely to lose jobs would be those already in the lowest income groups: women with children, young people, persons nearing retirement age, and unskilled workers. Layoffs that occurred before the coup affected these groups disproportionately, according to Soviet press reports. The poll respondents believed that specialists and members of cooperatives would be least likely to face unemployment.

The economic position of military personnel is also likely to continue to deteriorate over the near term. As deep cuts in defense spending occur, the discharge of thousands of military personnel, along with a substantial loss of jobs in the military industrial complex, will further complicate the economic situation. The eventual withdrawal of troops from the Baltic states, along

with the continued pullout from Eastern Europe, will also exacerbate acute housing shortages for military personnel. Indeed, the Soviets will probably seek to delay withdrawal of troops from the Baltic states as long as possible because of the problems associated with bringing military personnel back when they cannot be provided with decent housing. According to [] “the army has become the sixteenth republic, hungry and unsettled, but well armed and trained.”

In contrast, conditions for the entrepreneurial class are likely to improve. In the Baltic states, Russia, and probably at least a few other republics, many bureaucratic barriers to entrepreneurial activity are likely to be eliminated. Russian leaders, for example, want to encourage entrepreneurship by repealing legislation restricting middleman activity and through tax incentives. Maximum income tax rates have been reduced from 60 percent to 30 percent. Continued shortages and disarray in the state sector will keep profits in the private sector high. The greatest threat to entrepreneurs probably will come from the well-established criminal networks, which will flourish in the confusion following the coup.

While many members of the former party elite face loss of jobs and perquisites, some have probably also positioned themselves well to profit from the introduction of market reforms. They have stashed away assets that can be invested in new ventures and may also still be able to draw on influence and contacts built up over the years.

Regional variation in living standards may increase substantially. Areas that have traditionally been subsidized, Central Asia and the Caucasus, will suffer from the lack of a strong central government to make resource transfers. With practically all regions experiencing economic decline, republics such as the RSFSR are increasingly reluctant to subsidize the south. Economic conditions in Central Asia will be exacerbated by rapid population growth that is projected to continue into the next century, by shortages of water and arable land, and by severe environmental pollution and an accompanying deterioration in public

health. Moreover, the leaderships of the four Central Asian republics will be slow to implement economic reform. They may avoid some of the dislocation inherent in introducing market reforms in the short run, but in the long run this delay will lead to continued economic deterioration and will make the region less attractive for foreign investment. Recovery will be faster in regions that can attract investment and foreign technical assistance and move forward most effectively on economic reform

As republic governments take on increasing power, ethnic minorities in many regions may suffer, and this is likely to prompt increased migration, particularly the migration of Russians from peripheral republics back to Russia. Ethnic strife will hurt economies in regions such as the Dnestr area of Moldova, the Nagorno-Karabakh region of Azerbaijan, and the Chechen-Ingush Autonomous Republic in Russia. Work stoppages, sabotage, and disruption of transportation links will delay economic recovery and probably create a new wave of refugees. Foreign companies, moreover, will shy away from investing in areas of social instability.

Implications for Social and Economic Stability

Reformers hope that the institution of a market economy will eventually change the equation of winners and losers. The black market would give way to more legitimate forms of entrepreneurship. Those with energy and initiative would be rewarded by a higher standard of living, while a stronger economy would provide the means to support those least able to take care of themselves. Pay and living conditions for a smaller, more professional, and at least partially voluntary military would probably improve. With the privatization of land and decontrol of food prices, conditions in rural regions would also improve and the terms of trade between urban workers and rural farms would shift dramatically

In the interim, however, increased social stratification will exacerbate tensions between socioeconomic classes and ethnic groups. More violent demonstrations

could come from groups pushed to the fringes of society as layoffs, ethnic violence, increasing regional variation in the supply of food and consumer goods, and acute housing shortages increase interregional migration, swelling the ranks of homeless and "unregistered" citizens. Moscow mayor Gavriil Popov warned last year that the capital's large population of temporary workers "will be the first to take to the streets" should food supplies diminish.

Expanding poverty will have long-term implications for work effort, public health, and demographic trends in the former Soviet republics. Increasing mortality coupled with a declining birthrate has already reduced the rate of natural population increase in the Soviet Union. The number of educated and skilled people leaving the Soviet Union is also rising. The paucity of goods in the stores will continue to depress work effort. These trends will have an adverse impact on the size and quality of the region's Soviet labor force for years to come.

Public attitudes about wealth and a desire to avoid the social costs of economic transition will greatly complicate and probably further delay government efforts to stabilize and radically reform republic economies. Indexation of wages and pensions and other expensive social programs could short-circuit efforts to bring budgets under control. Republic governments will be under heavy pressure from the population, particularly the trade unions, to grant even larger increases in wages, benefits, pensions, and other social welfare programs. To date the republics have shown a tendency to back down to labor movements and grant costly concessions. Trade unions will also lobby against reforms that initially increase unemployment and prices. The public may also put pressure on governments to reimpose restrictions on entrepreneurs, particularly if they continue to flourish in the face of growing poverty for the average citizen. The republics face a long and difficult transitional period in which they will have to change the attitudes and work ethic of the population in order to significantly raise living standards.