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# WITHDRAWAL SHEET

## Ronald Reagan Library

**Collection Name** MATLOCK, JACK: FILES

**Withdrawer**

JET 5/5/2005

**File Folder** USSR-ECONOMY 2/10

**FOIA**

F06-114/7

**Box Number** 25

YARHI-MILO

2503

ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
9604	MEMO	LENZ TO ALLEN RE STATE OF SOVIET ECONOMY AND ROLE OF EAST-WEST TRADE <i>R 5/14/2013 M375/M554</i>	2	10/29/1981	B1
9605	MEMO	ALLEN TO PRESIDENT REAGAN RE STATE OF THE SOVIET ECONOMY AND ROLE OF EAST-WEST TRADE <i>R 5/7/2013 F2006-114/7</i>	1	ND	B1
9606	MEMO	CASEY TO PRESIDENT REAGAN RE STATE OF THE SOVIET ECONOMY AND ROLE OF EAST-WEST TRADE <i>PAR 5/7/2013 F2006-114/7</i>	1	10/29/1981	B3
9607	PAPER	STATE OF THE SOVIET ECONOMY AND THE ROLE OF EAST-WEST TRADE <i>PAR 12/27/2012 M554/1; PAR UPHELD 5/7/2013 F06-114/7</i>	22	10/26/1981	B3
9608	PAPER	THE USSR: FOREIGN TRADE HIGHLIGHTS AT MID-YEAR	3	11/4/1981	B1
9611	CABLE	171616Z NOV 81 <i>R 7/7/2008 NLRRF06-114/7</i>	3	11/17/1981	B1
9612	CABLE	251644Z NOV 81 <i>R 11/24/2009 F06-114/7</i>	4	11/25/1981	B1

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- B-1 National security classified information [(b)(1) of the FOIA]
- B-2 Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
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- B-4 Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
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- B-7 Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
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ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
9609	MEMO	BAILEY TO ALLEN RE ECONOMIC/FINANCIAL SITUATION OF THE SOVIET BLOC	1	11/25/1981	B1
9613	CABLE	251541Z NOV 81 <b>R 7/7/2008 NLRRF06-114/7</b>	2	11/25/1981	B1
9610	CABLE	261830Z NOV 81 <b>D 5/7/2013 F2006-114/7</b>	2	11/26/1981	B1 B3
9614	CABLE	USSR <b>D 5/7/2013 F2006-114/7</b>	3	12/10/1981	B1 B3

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Pipes

Read

MEMORANDUM

6320

NATIONAL SECURITY COUNCIL

~~SECRET~~

ACTION

October 29, 1981

MEMORANDUM FOR RICHARD V. ALLEN

FROM: ALLEN J. LENZ

SUBJECT: CIA Assessment: The State of the Soviet Economy  
and the Role of East-West Trade

Bill Casey has submitted to the President and other White House officials a new CIA paper entitled "The State of the Soviet Economy and the Role of East-West Trade" (Tab A). The paper provides a useful overview of the subject and would, I believe, make highly desirable reading for the President in preparation for decisions on oft discussed oil and gas controls and on the broader issues set out in the "East-West Policy Study," so many times deferred from NSC discussion.

I suggest you use this opportunity, however, to let the President and other White House advisors know what you anticipate as "next steps" on the oil and gas issue.

You will recall that as a result of a Nance-Meese discussion, it was decided not to hold further NSC discussion of this topic until a new paper responding to the President's questions was prepared. Meese indicated that the paper should be "NSC prepared -- inside the White House." I am working on such a paper.

Additionally, however, Secretary Haig, subsequent to the October 16 meeting, directed that the original SIG be reconvened. His instructions were ill-defined, but essentially were to come up with something to get the decision process moving.

I have cooperated with the SIG group by giving them my views of the information the President wants and they are working on a new paper. However, in order to allow the paper to reflect the results of a Rashish lead-team visit to Europe to present our alternatives to the Siberian Pipeline (Norman will be participating in this effort if you approve the travel) the delivery date on the State SIG paper has been slipped to the 9th of November. Additionally, I do not think the paper will adequately handle the key questions the President has posed.

~~SECRET~~

Review 10/29/87

DECLASSIFIED

NLRR M375/M554 #9604

~~SECRET~~ BY KML NARA DATE 5/14/13



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Accordingly, I intend to continue work on the NSC version. I received yesterday (on schedule) two key inputs from CIA. I will try to piece everything together over the weekend, "vet" it internally Monday/Tuesday and get it to you for your review mid next week, one week ahead of the time the State SIG paper would be available. At that point you can decide whether you wish to send the NSC paper to the President ahead of the SIG paper, or wait to compare the two.

Your memo to the President alludes to preparation of a paper responding to his questions on the oil/gas issue, but does not say who is doing it (CIA/NSC/SIG?). You may wish to clarify that point.

RECOMMENDATION

That you sign the memo to the President at Tab I.

Approve \_\_\_\_\_

Disapprove \_\_\_\_\_

Attachments

Tab I      Memo to the President  
          A      CIA Paper

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~~SECRET~~



4

~~SECRET~~

MEMORANDUM

6320

THE WHITE HOUSE  
WASHINGTON

~~SECRET~~

INFORMATION

MEMORANDUM FOR THE PRESIDENT

FROM: RICHARD V. ALLEN

SUBJECT: CIA Assessment: The State of the Soviet Economy  
and the Role of East-West Trade

Bill Casey has forwarded the attached paper (Tab A) which provides a comprehensive assessment of the current state of the Soviet economy, its future prospects, and the contribution of East-West trade to the solution of Soviet economic problems.

Bill's paper provides excellent background for decisions on both East-West trade and on our broad policy toward the Soviet Union. I recommend you read it at your earliest convenience.

Additionally, however, a paper more narrowly focussed on the oil and gas controls issue is being prepared in response to the questions you posed in the October 16 NSC meeting. This paper may obviate further NSC discussion but, in any event, no additional meetings on oil/gas controls are planned until your questions have been answered.

Attachment

Tab A      CIA Paper

DECLASSIFIED

NLRR F06-114/7 #9605

BY KML NARA DATE 5/7/13

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Review 10/29/87

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DECLASSIFIED IN PART

The Director of Central Intelligence

NLRR F06-114/7 #9606

Washington, D. C. 20505

BY KNL NARA DATE 5/7/13

29 October 1981

MEMORANDUM FOR: ✓ The President  
The Vice President  
Secretary of State  
Secretary of Defense  
Counsellor to the President  
Chief of Staff to the President  
Deputy Chief of Staff to the President  
Assistant to the President for  
National Security Affairs

FOIA(b)(3)

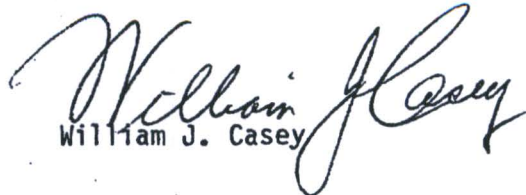
SUBJECT: The State of the Soviet Economy and the Role  
of East-West Trade

The attached CIA paper identifies Soviet economic problems and assesses how economic pressures can be put on the Soviets. The Soviets now face serious problems in almost every sector of their economy and their need for Western goods will grow in the 1980s. What will contribute most to their ability to maintain their military buildup are:

- (1) Western plant and equipment to help on their severe productivity problem;
- (2) Western oil and gas equipment to find new resources;
- (3) specialty steels and large diameter steel pipe, pipe laying machinery and compressors which will help meet their energy problems and which, coupled with the commitment of financing and gas markets from Western European nations, will enable them to maintain their hard currency earnings; and
- (4) food, especially grains and meat.

I have asked the Intelligence Community to develop, against the background of this paper, a national estimate on the impact of a coordinated COCOM effort to:

- (a) make it as difficult as possible for the Soviets to continue to build their military capability, and
- (b) to pursue more aggressively the prevailing less sweeping policy of depriving the Soviets of strategically valuable technology, thus forcing them to do their own research and development.

  
William J. Casey

Attachment:  
NFAC/OSA Paper,  
"The State of the Soviet  
Economy and the Role of  
East-West Trade"

~~SECRET~~



~~SECRET~~



13526

E. O. ~~12958~~

~~As Amended~~

Sec. 3.5(c)

The State of the Soviet Economy  
and the Role of East-West Trade

DECLASSIFIED IN PART

NLRR M554/1 #9607

BY KML NARA DATE 12/27/12

Office of Soviet Analysis

National Foreign Assessment Center

26 October 1981

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### Overview

As the Soviet Union completes the first year of its new five-year plan, the economy has turned sour before the long anticipated labor and energy problems have come into play. Three bad harvests have left agriculture in disarray. Meanwhile, transportation and materials bottlenecks and smaller productivity gains have reduced industrial growth sharply. Because prospects for raising productivity are poor, GNP growth may well be limited to 1-2 percent on average by the mid-1980s.

Slower economic growth will present President Brezhnev and his colleagues with some increasingly tough and politically painful choices regarding resource allocation and economic management. Annual increments to national output in the early 1980s will be too small to permit them simultaneously to meet mounting investment requirements, to maintain growth in defense spending at rates of the past, and raise the standard of living appreciably. Simply stated, something will have to give.

Given their problems, the Soviet need for Western goods and credits will increase greatly. Western imports would help planners deal with the basic problems confronting the Soviet economy during the 1980s--declining productivity and resource stringencies. Imports of Western plant and equipment, though now only about 5 percent of total domestic investment, make a disproportionately large contribution since their productivity is



substantially higher than Soviet-designed equipment. Large food imports will be required to maintain consumer morale and encourage labor productivity during the 1980s.

Soviet leaders, however, would be unlikely to change their foreign policy to ward off a Western economic embargo. They do not believe such a course is economically necessary, in part because they do not think--based on the Afghanistan experience--that a comprehensive embargo can be implemented, much less sustained for more than year or so. Moreover, changing Soviet foreign policy to prevent an embargo would be viewed as appeasement and would undermine the position of anyone who might recommend it.

If an embargo were implemented, however, a denial limited to US-origin equipment, technology and foodstuffs would be disruptive only in the short term; other Western and some East European products would be adequate substitutes. Only if the USSR were denied access to most Western equipment and technology for an extended period would the Soviet economy suffer substantial damage. Politically, the response reaction to a full scale embargo is highly unpredictable. The Soviet leadership, for example, might respond by taking an even more aggressive stance internationally. They probably would see little positive incentive in restraining their behavior abroad and might believe that foreign adventurism could be used to rally support for the



economic sacrifices and the greater discipline that would be required at home.

The Current State of the Soviet Economy

As the Soviet Union completes the first year of its new five year plan, the economy has turned sour before the long anticipated labor and energy problems have come into play. After averaging close to 4 percent during most of the 1970s, CIA measures of the average annual rate of GNP growth fell to just 1 percent during 1979-80. Only a weak rebound is expected this year.

Agriculture

Agriculture has been Moscow's biggest headache. The Soviets have now suffered their third straight harvest failure. We estimate that the grain crop will be about 170 million tons, 19 million tons less than last year's poor crop. Because meat production and the output of most other crops are expected to exceed last year's depressed level, however, total farm output should increase slightly compared with last year. Nevertheless, output will still fall short of the 1976 level.

While the odds are that the weather will be better next year, a return in the coming decade to the unusually favorable weather patterns that existed from the mid-60s to the mid-70s seems unlikely. Rather, the somewhat harsher conditions that prevailed for 20 years prior to the mid-60s are likely to be the



rule. In this environment, the gains in agricultural output that accrued between the mid-60s and mid-70s--largely the result of good weather--will be nearly impossible to achieve in the 1980s unless there is a sharp reversal of current trends in the delivery of machinery and fertilizer to agriculture.

### Industry

While agriculture has grabbed most of the headlines, industry also has been doing poorly. More than halfway through 1981, growth in almost every major sector is running behind the pace of a year ago. Civilian industrial output grew by less than 2 1/2 percent in first-half 1981 compared with first-half 1980. In the postwar period, only the 1979 first-half showing was worse.

Lagging output of industrial materials is a major reason for the economy's malaise. An abrupt slowdown in the growth of the steel and construction materials sectors (Table 1) has had a decided effect on new fixed investment, while shortages of nonferrous materials, lumber, and paper have become increasingly evident.

Growth of Soviet energy production also has slowed. After averaging almost 5 percent during most of the 1970s, primary energy production should fall to less than 3 percent this year. Oil output has been almost stagnant for the past year, while coal output--which peaked at 724 million tons in 1978--will probably



decline to 710 million tons this year. Only gas continues to do well; the USSR should have little trouble in reaching its 1981 production goal of 16.2 trillion cubic feet. Meanwhile, spot fuel shortages have become more frequent, reflecting a tighter supply situation as well as distribution problems. Although the Soviets are stepping up their efforts to increase the efficiency of energy use in the economy, campaigns of this kind in the past have fallen far short of their targets.



Table 1

USSR: Average Annual Percentage Rates of Growth  
of Industrial Production

	<u>1961-65</u>	<u>1965-70</u>	<u>1971-75</u>	<u>1976-80</u>
Total Industry	6.6	6.3	5.9	3.4
Industrial Materials	6.8	5.8	5.4	2.6
Ferrous metals	7.2	5.1	4.0	1.1
Nonferrous metals	7.6	7.4	5.9	2.6
Chemicals	12.0	8.9	8.6	3.9
Construction materials	5.4	5.7	5.4	1.8
Wood, pulp, and paper	2.6	2.9	2.6	0
Fuels	6.3	5.0	5.0	3.3
Electric power	11.5	7.9	7.0	4.5
Machinery	7.4	6.9	7.9	5.4
Civilian	8.9	8.2	9.0	5.8
Military	4.1	3.6	4.5	3.4
Consumer Nondurables	4.8	6.4	3.4	1.6
Light industry	2.6	7.2	2.7	0.7
Processed foods	6.8	5.9	3.9	0.7



The machinery sector--the foundation of the USSR's military and civilian investment programs--has performed better than any sector of industry in the past several years. But even the growth of civilian machinery output--after increasing at about 6 1/2 percent per year in 1976-79--fell off to a rate of less than 4 percent per year in 1980.

Underlying the economy's poor showing is the continuing slowdown in the growth of labor productivity. Productivity in industry, for example, during the first six months grew at an annual rate of less than 1 1/2 percent--almost one-third less than in 1979-80 and far below the 4 1/2 percent average targeted for the 1981-85 plan.

Output and Productivity in Soviet Industry  
(average annual percentage change)

	<u>1951-60</u>	<u>1961-70</u>	<u>1971-75</u>	<u>1976-80</u>
Output	9.2	6.4	5.9	3.4
Manhours worked	2.6	3.0	1.5	1.6
Labor productivity	6.4	3.3	4.4	1.8

The rising cost of exploiting raw materials explains part of the slower growth of industrial productivity. The quality of mineral deposits has declined in many instances, and minerals, energy, and timber must be obtained from remote areas, notably Western Siberia. Declining rates of growth of investment in the economy generally have also affected industry. Whereas fixed capital in industry increased by 11-12 percent per year in 1951-



65, this growth dropped to 7 1/2 percent per year in 1976-80.

Meanwhile, shortages of basic materials, such as steel and cement, have become much more serious in recent years, creating bottlenecks throughout the economy and disrupting and, in some cases, halting construction activity and industrial operations. Soviet planners, in trying to provide for the rising investment requirements of defense industry, agriculture, and energy seem to have shortchanged some branches producing critical industrial materials. Economic plans were made consistent on paper only by decreeing unrealistically large efficiency gains in these lower-priority sectors.

#### Capital Formation

Soviet planners--like their counterparts in other Warsaw Pact countries--have apparently singled out fixed capital investment to bear the brunt of dealing with tightening economic constraints. Fixed investment in 1981-85 is slated to grow at an average annual rate of only 2.4 percent. Indeed, there have been recent indications that already modest investment plans are undergoing further cuts. Historically, investment has increased more rapidly--7 percent per year in 1966-75 and 3 1/2 percent annually in 1976-80.

The investment slowdown will affect most parts of the economy. In particular, bottleneck sectors needing more investment like steel, transportation, and civilian machine



building are not likely to receive nearly as much as they require. Only energy is slated for a sharp rise in investment funding while defense procurement apparently will continue to increase at past rates.

Slower growth in investment--or even falling investment--will not have a sharp impact on economic growth in the near term. Even with little growth in investment, the capital stock will continue to increase fairly rapidly for a time. But by the mid-1980s the investment decisions taken now are bound to reduce the growth of fixed capital in the economy considerably.

Foreign Trade

Until recently, the USSR also has been able to use foreign trade to offset some domestic shortfalls. Capitalizing on rising energy and gold prices as well as rising arms sales Soviet hard currency earnings reached a record \$30 billion last year. As a result, Moscow was able to greatly increase its purchases from the West.

- o Net food imports climbed from roughly \$5.5 billion in 1978 to an estimated \$12.5 billion this year. Agricultural purchases now account for almost half of Soviet hard currency imports. Without this support the Soviet diet would have deteriorated seriously.
- o Imported steel--mainly specialty steels and large diameter steel pipe--has likewise offset shortfalls in domestic



production. Deliveries totaled roughly 10 million tons in 1980--10 percent of Soviet production of rolled steel in that year.

- o Purchases of equipment and tubular steel pipe from foreign suppliers have allowed stepped-up investment and exploitation of critical energy resources.

This year, however, Moscow's trade position has taken a turn for the worse. The combination of record high agricultural imports and a softening Western market for oil could double the trade deficit to \$5 billion and leave Moscow with little if any surplus in its current account balance. Nor are the hard currency prospects bright in the immediate years ahead. Oil exports earnings will be squeezed by stagnant or falling production, rising domestic consumption, and--possibly--weak prices. The Siberian gas pipeline--the only potential large earner of foreign exchange--will not be fully operational until 1986 or 1987 at the earliest.

Some potential may exist for increasing arms sales (last year Moscow added \$14 billion in new military contracts to its order books), but the export outlook for other Soviet products is much gloomier. Sales of civilian machinery and equipment for hard currency have plateaued and may in fact fall, while exports of wood, metals, and non-fuel minerals are expected to grow little if at all.



Consumer Welfare

The year 1981 marks the third consecutive year of increasing food shortages, mostly in the area of quality foods--meat and dairy products. Rationing of these items, mostly in the form of informal purchase limits, has become increasingly frequent and widespread since last winter. Factors other than the per capita availability of food supplies, however, have forced the government to act: namely, large-scale diversions from the retail food network, the maintenance of fixed prices in state retail outlets, and growing demand generated by wage increases.

Whatever the cause of the shortages, the consumer's mood is generally one of pessimism and resigned acceptance. Although some work stoppages have occurred this year, Soviet workers are still a long way from venting their dissatisfaction as the Polish workers have. To diminish the potential for labor unrest, the leadership has allowed the proliferation of special food distribution systems. Once reserved largely for the Soviet elite, these systems have become common at the factory level. The encouragement of special food distribution, coupled with the traditional stoicism of the populace, has been enough to maintain labor peace. In effect, the leadership has shifted the worst burden of the food shortage to social groups like the elderly who are least likely to protest.

The most serious consequence of the slowing growth in



consumer welfare from the leadership's point of view is its impact on labor productivity. We expect per capita consumption to stagnate during the mid-to-late 1980s. For a population that has enjoyed substantial improvement in living standards during the 1960s and 1970s, any interruption in these gains is likely to reduce worker motivation and hence productivity. The leadership is counting upon labor productivity gains to obtain 90 percent of the growth in industrial output and the entire growth in agricultural output in the current Five-Year Plan. Moscow thus faces a dilemma. It is relying upon a strategy of promoting efficiency and productivity throughout the economy rather than more investment to restore past rates of economic growth and boost consumer welfare. But unless the leadership provides sufficient increases in quality foods and goods now to a labor force less willing to defer material satisfactions to the future, we do not think this strategy will work.

#### Leadership Response

So far the leadership's response to growing economic difficulties has been cautious and conservative. We have seen for example, no sign of an effort to curb military outlays to boost the civilian economy. Physical indicators of future levels of defense spending--such as programs in training and investment in defense production and R&D facilities--point to continued real growth of about 4 percent per year. Nor has the Politburo taken

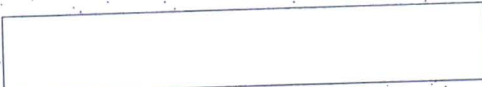


any significant steps to change the system of planning and management to cope with the economic slowdown. The planners' main concession to the resource bind has been to cut investment growth during 1981-85 to the lowest rate in the postwar period.

The leadership clearly recognizes that the economic situation is serious; President Brezhnev has been sounding this theme since the late 1970s. Evidence of the leadership's rising concern is reflected in their attempt to impress the elite with the serious nature of the economy's problems. In August 1979 a high-level official of Gosplan was sent to address senior foreign ministry officials on "Problems of Economic Development." He candidly described the large drop in labor productivity and the shortage of capital and manpower. The gloomy nature of the discussion was unexpected and reportedly upset the audience. From December 1979 to February 1980 a series of meetings was held, this time for a group of 300 leading academicians of the Soviet Academy of Sciences. Senior government officials revealed that the economy was suffering "very serious problems" and in an unprecedented move asked for suggestions and advice.

Nonetheless, the leadership's reluctance to adopt new policies on resource allocation or economic organization also partly reflects a less pessimistic view of the economic situation than our own. They tend to believe that present policies designed to improve planning and stimulate technological progress





will be successful eventually. In addition, Soviet leaders believe that some of their problems are transitory. They apparently believe, for example, that:

- o demographic trends will lead to an upturn in the labor supply in the 1990s;
- o better weather and greater efficiency will restore growth in farm output and help solve the food problem;
- o increased production of gas and conservation will more than offset any stagnation in oil production in the years ahead; and
- o new technological fixes and breakthroughs will improve economic performance and productivity.

More generally, they tend to make their economic assessments in comparative terms and may take some solace in the fact that the Western economies are also experiencing serious difficulties and challenges.

Perhaps the most important reason for the inertia in domestic economic policy, however, is the inability or unwillingness of the present ageing leadership to undertake decisive actions and fundamental reforms. The ruling group, knowing that its remaining tenure is limited, seems incapable of making the hard policy choices involved in shifting resource allocations, modifying administrative arrangements, and changing organizational structures. Such decisions would necessarily



affect entrenched institutional interests and generate bureaucratic conflicts, and would be fraught with political uncertainties. Fundamental changes in economic policy thus must await a leadership that recognizes the economic risks of policy immobilism and that is more reform-minded than the present leaders.

Outlook for the Economy

The economic problems now facing the Soviets are for the most part familiar.

- o Agriculture continues to suffer from chronic organizational inefficiencies and remains vulnerable to wide swings in performance because of climatic conditions.
- o Investment has had difficulty in keeping up with an enormous, ageing capital stock; hence, capital stock growth must necessarily slow.
- o Growth in productivity has lost much of its steam as exhortations have lost their effectiveness and material incentives have been dulled by shortages of consumer goods and a buildup of excess savings.

While the problems are familiar, their intensity has increased--leaving the Politburo with less and less room for maneuver. In the 1960s and early 1970s, the Soviet leadership could satisfy a number of economic priorities simultaneously.

- o Average living standards rose dramatically.



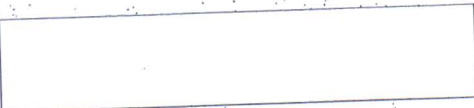
- o Productive capacity increased rapidly in all sectors of the economy.
- o Sustained growth in defense spending led to major qualitative improvements in weapons systems as well as an impressive expansion of military forces.

A multi-sided attack on priorities will no longer be possible in the 1980s. In this new environment, there will be some "losers," greatly complicating decisionmaking.

- o GNP growth may average less than 2 percent per year over the current decade.
- o If defense spending continues to rise at about 4 percent per year, the defense share in increments to GNP could rise from about 1/4 now to 1/2 in the mid-1980s, and to 2/3 by 1990.
- o Slower growth in industry and steady growth in defense means much slower growth in investment and increasing tensions among regional interests.
- o Consumer-oriented programs probably will lose out and those responsible for public order will have to worry more about the population's mood.

Whereas the present leadership is not disposed to undertake new policy initiatives, economic circumstances in the mid-to-late 1980s will force the Soviet leadership then in power to decide anew on development priorities and--perhaps--on the need for





economic reform.

Increasing Need for Western Support

Because of its economic difficulties, we think that the USSR will have an even greater need for Western goods in the 1980s.

Specifically, Western imports could help alleviate:

o The Productivity Lag

Imports of Western plant and equipment, though now only about 5 percent of total domestic investment, make a disproportionately large contribution as they are generally more productive than their Soviet-designed counterparts. Moreover, imports are concentrated in those sectors most crucial to technological progress--e.g., chemicals and machine building.

o Fuel Shortages

Imported Western oil and gas equipment can help to locate and explore new oil and gas resources and to maintain production in older oilfields.

o Industrial Bottlenecks

Steel shortages, for example, are hindering production of civilian machinery. Continued imports of steel would help counter the effects of inadequate Soviet investment in new steel capacity.



o Pressure on Defense Spending

A continuation of high growth rates for defense despite the low economic growth rates projected for the 1980s will lead to an inevitable erosion of the civilian machine building sector. Imports of Western plant and equipment could bolster the civilian industrial base.

o Consumer Welfare

Food imports, especially grain and meat, could be crucial to maintaining consumer morale and encouraging labor productivity during the 1980s.

Imports of Equipment and Technology

If the USSR were denied access to Western equipment and technology, the Soviets would be forced to go it alone, entailing major losses in product quality and labor productivity. Soviet leaders would most fear a decisive interruption in commerce because the USSR's scarce stock of resources could not be stretched to accommodate a sudden demand for import substitutes. They would especially want to avoid a curtailment of trade in the next several years because they believe that Soviet economic problems will be toughest in the short and medium-term. While a denial limited to US-origin equipment and technology would be disruptive in the short term, other Western and some East European equipment and technology provide adequate substitutes. A narrow group of items specific to oil and gas



exploration and production, such as submersible pumps, represents a notable exception, but even here industry experts say that foreign replacements could be found within a few years.

#### Imports of Agricultural Products

Western imports are important to Soviet planners in supporting the growth in living standards necessary to raise worker morale and productivity. Even with normal harvests, Moscow will need to buy 20-30 million tons of grain annually for at least the next several years to support announced livestock expansion programs. If all Western suppliers were to suspend grain sales to the USSR, Moscow would be forced to take one or more of the following steps:

- o reduce livestock herds to alleviate some of the pressure on feed supplies;
- o expand rationing and other conservation measures;
- o halt meat and grain exports to client states;
- o draw down strategic grain reserves.

A partial grain embargo would have a much more limited effect. Moscow could buy most of the grain it needs from other suppliers, as it did after the post-Afghanistan embargo, although the USSR would have to pay premium prices for the grain and cope with additional port congestion.

#### The Role of Western Credits

But any increase in purchases of Western goods will depend



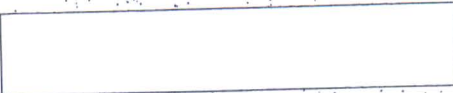
primarily on Soviet ability to obtain hard currency credits and the terms on which these credits are granted. Thus, Moscow will have to rely on gold sales and on Western borrowing if it is to avoid cutting imports of agricultural products or capital goods. Given its low debt-service ratio, Moscow should have little difficulty raising additional funds as long as credits are tied to imports and the political climate does not deteriorate greatly. The USSR, however, will want long-term credits at interest rates lower than those now prevailing in the West. Otherwise, the benefits of borrowing would be greatly diminished by a rapid build up of repayment obligations. Even under favorable circumstances the Soviet hard currency position will be extremely tight, and Moscow's willingness to supply hard currency goods and assistance to its East European allies will be sorely tested.

Implications of the Economic Slowdown for Western Leverage

In summary, we judge that the threat would not cause Soviet leaders to significantly change their foreign or domestic policies. They believe that:

- o any response to such a threat would amount to appeasement and would undermine their position both internationally and domestically;
- o their economic problems, while serious, are not cause for panic, and should begin to ease during the 1990s; and





o the damage caused by an embargo would not lead to domestic turmoil. The Soviet population, in their view, has had to endure much worse hardships and if necessary could do so again.

Whatever the Soviet perceptions, a widespread, sustained embargo would cause substantial disruption and dislocation. Several major development projects would be seriously delayed, and Moscow would have to abandon its goals for consumption of livestock products. A partial embargo would not hurt the Soviet Union nearly as much, although measures as limited as administrative delays in approving equipment and technology exports would force plan adjustments. Politically, the Soviet leadership might respond by taking an even more aggressive stance internationally. They probably would see little positive incentive in restraining their behavior abroad and might believe that foreign adventurism could be used to rally support for economic sacrifices at home.



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~~C O N F I D E N T I A L~~ SECTION 01 OF 03 MOSCOW 15897

USDOC FOR BEWT  
E.O. 12065: GDS 11/17/87 (BUFFALO, JR., HARVEY A.) OR-M  
TAGS: ECON, ETRD, PINT, UR  
SUBJECT: A SOMBER BREZHNEV VIEW OF THE SOVIET ECONOMY.  
REF: MOSCOW 15730 (NOTAL)

1. (U) SUMMARY: AS EXPECTED BREZHNEV HEWED CLOSELY TO THE ECONOMIC PROGRAM ADOPTED AT THE XXVI CPSU CONGRESS IN HIS MAJOR ECONOMIC ADDRESS TO YESTERDAY'S CENTRAL COMMITTEE PLENUM. HE PUT EMPHASIS ON HIGHER LABOR PRODUCTIVITY, CONSERVATION OF ENERGY AND OTHER RESOURCES, REDUCTION OF MANUAL LABOR AND IMPROVED AGRICULTURAL PERFORMANCE. BREZHNEV ALSO REPORTED THAT THIRTY (30) BILLION RUBLES HAD BEEN DROPPED FROM THE CAPITAL INVESTMENT PROGRAM OF THE ELEVENTH FIVE-YEAR PLAN, THUS REDUCING TO TEN (10) PERCENT THE PLANNED GROWTH IN CAPITAL INVESTMENT. BREZHNEV ALSO REPORTED THAT THE FOOD PROGRAM HE HAD CALLED FOR AT THE PLENUM A YEAR AGO WAS STILL NOT READY AND WOULD BE DISCUSSED AT A FUTURE SPECIAL SESSION. BREZHNEV SUGGESTED THAT A SPECIAL PLENUM OF THE CPSU BE DEVOTED TO ECONOMIC MANAGEMENT, ANOTHER PROBLEM AREA IN THE ECONOMY. WITH AT LEAST AS MANY REFERENCES TO DIFFICULTIES AND COMPLICATIONS AS TO THE CUSTOMARY "DYNAMIC" GROWTH ANTICIPATED OVER THE NEXT FIVE YEARS, BREZHNEV'S SPEECH SEEMED ALMOST SOMBER IN TONE.  
END SUMMARY.

2. (U) AGRICULTURE: BETRAYING SENSITIVITY TO POSSIBLE POLITICAL FALLOUT FROM THE CURRENT STRING OF BAD HARVESTS, BREZHNEV'S CHIEF ECONOMIC CONCERN WAS AGRICULTURE, WHICH HE TERMED "THE CENTRAL PROBLEM OF THE ENTIRE FIVE-YEAR PLAN, ECONOMICALLY AND POLITICALLY." HE CITED PRODUCTION FIGURES FOR THE KEY GRAIN GROWING REGIONS OF UKRAINE (LARGER THAN THE 1979 CROP) AND KAZAKHSTAN (SLIGHTLY SMALLER

THAN TWO YEARS AGO) WHICH WOULD SEEM TO RULE OUT THE GLOOMIER PREDICTIONS OF THE 1981 SOVIET CROP WE HAVE HEARD HERE. THIS WAS THE ONLY SILVER LINING TO AN OTHERWISE VERY DARK CLOUD, HOWEVER. BREZHNEV NOTED DEFENSIVELY THAT SOVIET FARMERS CAN AT BEST EXPECT ADEQUATE WEATHER IN ONLY ONE OF EVERY TWO YEARS DURING THE CURRENT FIVE-YEAR PLAN. NOR CAN EARLY RELIEF BE EXPECTED FROM THE "FOOD PROGRAM" BREZHNEV HAD CALLED FOR AT LAST YEAR'S FALL PLENUM. AS WE PREDICTED (REFTEL), BREZHNEV ADMITTED THAT THE "DIFFICULT" TASK OF DRAWING UP A WORKABLE PROGRAM HAS NOT YET BEEN COMPLETED; HE PROMISED THAT THE "FOOD-PROGRAM" WOULD BE DISCUSSED AT A FUTURE PLENUM.

3. (U) ENERGY: BREZHNEV SINGLED OUT ENERGY FOR PRIORITY ATTENTION IN HIS SPEECH. HE CALLED THE NORTHERN GAS PIPELINE AND OTHER PROJECTED LINES FROM WEST SIBERIAN GAS DEPOSITS TO DOMESTIC AND EXPORT CONSUMERS THE "CENTRAL CONSTRUCTION PROJECTS OF THE FIVE-YEAR PLAN." AS IN HIS 1980 ECONOMIC SPEECH, BREZHNEV UNDERLINED THE ADEQUACY OF SOVIET ENERGY RESOURCES, ASSURING THE CENTRAL COMMITTEE THAT A RECENT REAPPRAISAL OF WEST SIBERIAN OIL, NATURAL GAS AND GAS CONDENSATE DEPOSITS HAD CONFIRMED THAT "MOTHER NATURE HAS BEEN GOOD TO US." AT THE SAME TIME, HE CALLED ON THE HEADS OF SOVIET ENERGY MINISTRIES TO INSURE AVAILABILITY OF ENERGY SUPPLIES FOR EXPORT "TO OUR BROTHER COUNTRIES AND ON THE WORLD MARKET."

4. (U) CAPITAL INVESTMENT: ASIDE FROM ENERGY, BREZHNEV PAID LITTLE ATTENTION TO INDUSTRIAL SECTORS IN THIS YEAR'S ADDRESS. AS EXPECTED, HE ANNOUNCED A MAJOR CUT IN CAPITAL INVESTMENT SPENDING--PROJECTS COSTING THIRTY (30) BILLION RUBLES HAVE BEEN DROPPED FROM THE FIVE-YEAR PLAN. THIS INDICATES THAT A MAJOR REDUCTION IN CAPITAL INVESTMENT PLANS HAS BEEN MADE OVER THE PAST FEW MONTHS. BREZHNEV NOTED THAT CAPITAL INVESTMENT WILL INCREASE BY TEN (10) PERCENT DURING THE  
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~~C O N F I D E N T I A L~~ SECTION 02 OF 03 MOSCOW 15897

USDOC FOR BEWT  
FIVE-YEAR PLAN; THE PLAN GUIDELINES ADOPTED BY  
THE XXVI CONGRESS IN MARCH HAD CALLED FOR A TWELVE-  
TO-FIFTEEN (12-15) PERCENT GROWTH IN INVESTMENT  
SPENDING.

5. ~~(U)~~ CONSUMER GOODS: BREZHNEV REITERATED PAST  
PLEDGES TO ACCELERATE CONSUMER GOODS PRODUCTION.  
NOTING CONTINUING "IRREGULARITIES" IN AVAILABILITY  
OF MEAT, DAIRY PRODUCTS, TEXTILES "AND A SERIES OF  
OTHER PRODUCTS," BREZHNEV DECLARED THAT THE "FIVE-  
YEAR PLAN IS ORIENTED TO SOLVING THIS." HOWEVER,  
HE PROVIDED FEW DETAILS ON HOW THIS WAS TO BE DONE.  
A REFERENCE IN HIS OCTOBER 1980 SPEECH TO A "CONSUMER  
GOODS PROGRAM" WAS NOT REPEATED THIS TIME OUT,

--  
ALTHOUGH GOSPLAN CHAIRMAN BAYBAKOV DID MENTION THIS  
PLAN IN HIS SPEECH TO THE SUPREME SOVIET TODAY. NOR  
DID BREZHNEV AGAIN CALL ON HEAVY AND DEFENSE INDUSTRIES  
TO BOOST CONSUMER GOODS OUTPUT.

6. ~~(U)~~ BREZHNEV ALSO STRESSED THE IMPORTANCE OF  
IMPROVING SOVIET MANAGERIAL PRACTICES. BREZHNEV  
NOTED THAT MEASURES ENVISIONED IN THE 1979 REFORM  
DECREE HAD NOT TAKEN HOLD IN THE ECONOMY. HE  
RENEWED HIS 1980 CALL FOR GREATER DECENTRALIZATION  
OF AUTHORITY TO PLANT MANAGERS, CITING RECENT  
AGRICULTURAL MANAGEMENT CHANGES AS A MODEL TO BE  
EMULATED IN INDUSTRY. TO STRESS THE NEED TO TAKE  
ECONOMIC REFORM SERIOUSLY, BREZHNEV ANNOUNCED A  
POLITBURO DECISION TO DISCUSS THE ISSUE AT A FUTURE  
CENTRAL COMMITTEE PLENUM.

7. ~~(U)~~ FOREIGN TRADE AND CMEA SUMMIT: BREZHNEV  
NOTED THE IMPORTANCE OF FOREIGN TRADE, ESPECIALLY  
THE "DEEPENING OF COOPERATION WITH SOCIALIST

COUNTRIES," A TASK OF "PRIME ECONOMIC AND POLITICAL  
IMPORTANCE." THE PLAN GUIDELINES HAD ALSO CALLED  
FOR DEEPENING OF ECONOMIC TIES WITH THE SOCIALIST  
CAMP, BUT HAD NOT CALLED THIS POLITICALLY VITAL.  
BREZHNEV HIMSELF WAS SILENT ON THIS POINT IN OCTOBER  
1980. THIS NEW REFERENCE TO SOCIALIST COOPERATION  
MAY PRESAGE AN EVENTUAL CMEA SUMMIT MEETING  
ALTHOUGH OUR LOCAL CONTACTS DO NOT BELIEVE THE  
DATE FOR SUCH A MEETING HAS YET BEEN SET.

8. ~~(U)~~ OTHER PROBLEM AREAS: OTHER PROBLEM AREAS  
IN THE SOVIET ECONOMY CITED BY BREZHNEV INCLUDED  
THE TENDENCY TOWARD A LOWER RETURN ON CAPITAL,  
SLOW INTRODUCTION OF SCIENTIFIC PROGRESS AND THE  
PRESENT DEMOGRAPHIC SITUATION. WITH RESPECT TO  
THE MANPOWER PROBLEM, BREZHNEV NOTED THE VARIOUS  
EFFORTS UNDERWAY TO ATTRACT PENSIONERS, HOUSEWIVES  
AND COUNTRY PEOPLE TO THE WORKFORCE, BUT SAID THE  
REAL PROBLEM LAY IN THE FACT THAT FORTY (40) PERCENT  
OF THE ENTIRE LABOR FORCE OF THE COUNTRY IS STILL  
ENGAGED IN MANUAL LABOR.

9. ~~(U)~~ COMMENT: BREZHNEV'S REMARKS ON THE ECONOMY  
THIS YEAR WERE NOTEWORTHY FOR THEIR SOMBER TONE.  
THE SOVIET LEADER BLAMED HIS ECONOMIC WOES ON ACTS  
OF GOD (THE DROUGHT) AND MAN ("A WORSENING OF THE  
INTERNATIONAL SITUATION," AS WELL AS INTERNAL  
SOVIET MISMANAGEMENT). WHILE BREZHNEV'S REFERENCES  
TO DEFENSE ISSUES WERE FEW, HE SUGGESTED THAT ONE  
RESPONSE TO THE "WORSENING SITUATION" WILL BE HIGHER  
MILITARY SPENDING. "DEFENSE NEEDS WILL CERTAINLY BE  
PROVIDED FOR," BREZHNEV SAID. WE BELIEVE THE

SOVIET MILITARY MAY WELL BE ONE RECIPIENT OF THE  
FUNDS RECHANNELED FROM CANCELLED INVESTMENT PROJECTS.

10. ~~(U)~~ FOR THE REST, THE SPEECH AMOUNTED TO A  
MEASURED SUMMING UP OF THE MAIN ECONOMIC THEMES  
UNDER DISCUSSION IN RECENT YEARS. CONSUMER WELFARE  
REMAINS A STATED PRIORITY. IN THAT CONNECTION,  
BREZHNEV'S REFERENCE TO THE NEED TO INCREASE  
SUPPLIES OF MEAT, DAIRY PRODUCTS AND COTON TEXTILE  
GOODS "ALONG WITH OTHER ITEMS" SUGGESTS TO US THAT  
THESE THREE BASIC COMMODITIES ENJOY THE SAME RANK  
IN LETTERS OF PRIVATE CITIZENS TO THE PARTY.

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USDOC FOR BEWT  
PRODUCTIVITY RISES MUST BE THE BASIS FOR GROWTH.  
CONSERVATION OF MATERIALS, ESPECIALLY ENERGY,  
MUST TAKE HOLD. BOTH IN AGRICULTURE AND IN ECONOMIC  
MANAGEMENT, THE REFERENCES TO THE NEED FOR GREATER  
AUTONOMY OF STATE AND COLLECTIVE FARMS AND OF ENTER-  
PRISE SUGGESTS THAT THE POLITBURO IS AT LEAST  
LISTENING TO THE ADVOCATES OF HEIGHTENED LOCAL  
INITIATIVE AND RESPONSIBILITY. WE CONCLUDE THAT  
WHILE THE LEADERSHIP HAS NO TROUBLE AGREEING ON  
SUCH GOALS AS GREATER PRODUCTIVITY AND MORE MEAT,  
THERE IS NOT MUCH EVIDENCE IN BREZHNEV'S SPEECH  
THAT THE PRACTICAL MEASURES TO IMPLEMENT SUCH GOALS  
HAVE BEEN AGREED UPON. END COMMENT HARTMAN  
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4. FOOD AND AGRICULTURE: BREZHNEV'S REFERENCES TO FOOD SHORTAGES AND A POOR 1981 HARVEST WERE IN OUR VIEW DESIGNED TO DISPLAY LEADERSHIP RECOGNITION OF THE PROBLEMS FACING THE ORDINARY SOVIET CITIZEN WHICH UNDOUBTEDLY FIND EXPRESSION IN THE LETTERS SENT TO THE CENTRAL COMMITTEE AND THE CENTRAL PRESS. THE SOVIET AIM, STATED IN SO MANY WORDS AT THE MEETINGS, IS TO LIBERATE SOVIET AGRICULTURE FROM THE VAGARIES OF WEATHER PATTERNS IN THIS PART OF THIS WORLD. TO THIS END, AGRICULTURAL INVESTMENT WILL INCREASE FROM PREVIOUSLY FORECAST 170 TO 190 BILLION FOR THE FIVE-YEAR PLAN. HOWEVER, BREZHNEV AND OTHERS DID NOT BLAME ONLY THOSE WELL-KNOWN "OBJECTIVE" CONDITIONS BEYOND THEIR CONTROL FOR THE CURRENT SITUATION, BUT SPOKE OF SHORTCOMINGS IN AGRICULTURAL MANAGEMENT AND ORGANIZATION AS WELL.

THE SOLUTION IS TO BE FOUND IN FOOD PROGRAMS TO BE DISCUSSED AT A SUBSEQUENT PLENUM, BUT FINAL FORMULATION OF THIS PLAN STILL APPEARS FAR OFF IN THE FUTURE. VLADLEN MARTYNOV, DEPUTY DIRECTOR OF IMEMO AND ONE OF A LARGE GROUP OF ACADEMICS WORKING ON THE FOOD PROGRAM, TOLD ECONOMIC COUNSELOR THAT HE EXPECTED THE VARIOUS ACADEMY OF SCIENCES ECONOMISTS, WITH HELP FROM THE STATE COMMITTEE ON SCIENCE AND TECHNOLOGY, TO PUT TOGETHER A DRAFT IN THE NEXT FIVE TO SIX MONTHS FOR SUBMISSION TO THE CENTRAL COMMITTEE SECRETARIAT. HE REPORTED THAT A SET OF BAREBONES IDEAS HAD BEEN FORWARDED SEVERAL MONTHS AGO WHERE THEY GAVE RISE TO INTENSE DISCUSSION BETWEEN DIFFERENT FACTIONS. THE EXERCISE NOW UNDERWAY SEEMS TO INVOLVE FORCING SUFFICIENT AGREEMENT TO PERMIT THE SOVIET ECONOMIC FRATERNITY TO SUBMIT A COHERENT

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USDOC FOR EEW

E.O. 12065: GDS 11/25/87 (ZIMMERMANN, WARREN) OR-M  
TAGS: UR, EEW, ECON

SUBJECT: SOVIET VIEW OF ECONOMY AT CPSU  
- PLENUM AND SUPREME SOVIET SESSION.

REFS: A) MOSCOW 15897  
- B) MOSCOW 15956  
- C) MOSCOW 16003  
- D) MOSCOW 16200

1. CONFIDENTIAL - ENTIRE TEXT.

2. SUMMARY: IN ATTEMPTING TO SEPARATE THE SUBSTANCE FROM THE ATMOSPHERICS IN LAST WEEK'S OUTPOURING OF SPEECHES ON THE SOVIET ECONOMY, WE CONCLUDE THAT THE SOVIETS HAVE IDENTIFIED CLEARLY ENOUGH THE PROBLEMS FACING THEIR ECONOMY, BUT HAVE NOT YET BEEN ABLE TO DECIDE UPON A COHERENT STRATEGY TO MEET THEM.  
END SUMMARY.

3. WE HAVE TAKEN ANOTHER LOOK AT THE MANY SPEECHES MADE AT LAST WEEK'S CPSU PLENUM AND SUPREME SOVIET SESSION DEVOTED TO THE SOVIET ECONOMY AND THE TARGETS FOR BOTH 1982 AND THE ELEVENTH FIVE-YEAR PLAN (1981-1985) (SEE REFS. A AND B). IN ADDITION, WE HAVE COMPARED NOTES WITH OTHER WESTERN OBSERVERS AND SEVERAL KNOWLEDGEABLE SOVIETS. WHILE THERE IS WIDESPREAD AGREEMENT THAT NOTHING UNEXPECTED EMERGED FROM THE SESSIONS, OUR CONTACTS UNIVERSALLY ARRIVED AT THE SAME CONCLUSION THAT THIS FALL'S MEETINGS DISPLAYED AN UNUSUALLY PESSIMISTIC TONE. FRENCH AMBASSADOR FROMENT-MEURICE CLAIMED TO DISCERN A MAJOR CHANGE IN MOOD BETWEEN 1980 AND 1981 (REF. C), WHILE OUR LIST OF PESSIMISTIC SOVIETS GREW TO INCLUDE YURIY ZHUKOV OF "PRAVDA" WHO TOLD HARRISON SALISBURY (ACCORDING TO SALISBURY) THAT THE U.S.S.R. HAD TO DO SOMETHING ABOUT ITS PROBLEMS - NOTING THAT FOOD AND CONSUMER GOODS PROBLEMS COULD NOT FOREVER BE PAPERED OVER BY INCREASED IMPORTS.

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CONSTRUCTION IN THE U.S.S.R LEFT OVER FROM PREVIOUS FIVE-YEAR PLANS ROUGHLY EQUALS THAT PLANNED FOR THE NEXT FIVE-YEAR PLAN, SO THAT IT WAS LOGICAL TO CUT DOWN ON NEW PROJECTS. WHILE WE BELIEVE, AND A FEW SOVIETS HAVE SAID AS MUCH, THAT SOVIET MILITARY SPENDING WILL BE RISING ABOVE PREVIOUSLY PLANNED LEVELS, WE HAVE NO WAY OF KNOWING HOW MUCH OF THE MONEY THUS FREED WILL MAKE ITS WAY INTO THAT SECTOR.

7. INFLATION: WE NOTED WITH SOME CURIOSITY THAT SOVIET BUDGET FIGURES ROSE 4.7 PERCENT BETWEEN 1980 AND 1981, BUT WILL RISE 7.7 PERCENT BETWEEN 1981 AND 1982. MOREOVER, THE FINAL RESULTS FOR 1981 SHOW A SURPLUS OF 8 BILLION RUBLES BETWEEN INCOME AND EXPENDITURE. ASKED ABOUT THE MASSIVE INCREASES IN BUDGET GROWTH, MARTYNOV REFERRED TO THE SEPTEMBER PRICE INCREASES AS THE CAUSE: HIGHER PRICES ON A NUMBER OF KEY GOODS WILL PRODUCE THAT MUCH ADDITIONAL REVENUE VIA THE TURNOVER TAX; IN A WORD (OURS, NOT HIS), INFLATION. BY CONTRAST, MARTYNOV FELT THAT THE CHANGE IN WHOLESALE PRICES TO BE INTRODUCED ON JANUARY 1, 1982, WOULD NOT AFFECT THE SOVIET ECONOMY EXCEPT INASMUCH AS THEY PROVED A SPUR TO CONSERVATION; ALL THAT IS INVOLVED, IN HIS WORDS, IS A CHANGE IN BOOKKEEPING.

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DRAFT. ITS FATE WOULD THEN PRESUMABLY DEPEND ON THE WILLINGNESS OF THE CPSU POLITBURO TO FORCE AGREEMENT ON ITS CONTENTS, THUS PAVING THE WAY FOR RUBBER-STAMP APPROVAL AT THE SPECIAL CPSU PLENUM. OUR GUESS IS THAT AT LEAST A GOOD PART OF 1982 AT A MINIMUM WILL BE REQUIRED BEFORE THE CPSU WILL BE ABLE TO RATIFY WHATEVER AGREEMENT IS REACHED ON THE MANY FAR-REACHING AND OFTEN CONTRADICTORY PROPOSALS NOW BEING MADE ON AGRICULTURE AND FOOD.

8. ENERGY: INCREASED INVESTMENT IN ENERGY AND THE HEAVY EMPHASIS PLACED ON CONSERVATION LEAVE NO DOUBT OF THE OVERRIDING IMPORTANCE OF THIS SECTOR TO THE U.S.S.R. ECONOMY. WE NOTE THAT THE TARGET FOR THE

5. LIGHT INDUSTRY: "GROUP B" AND LIGHT INDUSTRY ARE OF COURSE THE EUPHEMISMS EMPLOYED TO DESCRIBE THE CONSTANT SHORTAGE OF QUALITY CONSUMER GOODS IN THE U.S.S.R. WITH THE CONCOMITANT EFFECT OF AN EVER-INCREASING RUBLE OVERHANG IN BANKS AND MATTRESSES. THE SHARE OF IMPORTS OF SOVIET DOMESTIC SALES OF THESE GOODS HAS NOW REACHED 15 PERCENT, AND THAT 15 PERCENT CONSTITUTES MUCH OF WHAT IS SOUGHT AFTER AS OPPOSED TO WHAT SOVIET CITIZENS BUY OUT OF NECESSITY. THE FACT THAT THE AUTHORITIES ARE CRACKING DOWN ON THE WIDESPREAD PILFERAGE AND HOLDING BACK FOR PREFERRED CLIENTS OF DESIRED GOODS ITSELF SUGGESTS THAT THE ALTERNATIVE OF MATCHING SUPPLY AND DEMAND SEEMS FAR OUT OF REACH. THE PRICE RISES OF LAST SEPTEMBER AND THOSE RUMORED FOR JANUARY 1, 1982 SIMILARLY SUGGEST THAT THE LEADERSHIP LOOKS TO ADMINISTRATIVE MEASURES (I.E., PRICE HIKES TO DEPRESS DEMAND) RATHER THAN AFFIRMATIVE ACTION TO INCREASE SUPPLY AS THE ONLY VIABLE SHORT-RUN SOLUTION TO THE DEMAND-SUPPLY SQUEEZE. WHAT DOES NOT SEEM FEASIBLE IS MASSIVE RE-EQUIPPING OF LIGHT INDUSTRIAL FACILITIES TO PERMIT QUANTITY AND QUALITY OF SOVIET-MADE HOUSEHOLD GOODS TO RISE TO MEET THAT OF EASTERN EUROPE, NOT TO MENTION THE WEST. HERE AGAIN A SPECIAL PLENUM IS TO BE CALLED AT SOME TIME TO DISCUSS THE PROBLEMS.

6. INVESTMENTS: OBSERVERS HERE AGREE THAT THE CUT OF 30 BILLION RUBLES IN CAPITAL INVESTMENT FUNDS DURING THE ELEVENTH FIVE-YEAR PLAN ANNOUNCED BY BREZHNEV AMOUNTS TO RECOGNITION OF A SHORTAGE OF FUNDS. IN EXPLAINING THESE CUTS, MARTYNOV TOLD ECONOMIC COUNSELOR THAT THE AMOUNT OF UNCOMPLETED CAPITAL



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INFO OCT-00 ADS-00 INR-10 SS-10 CIAE-00 EB-08 DODE-00  
NSC-05 NSAE-00 LAB-04 DOE-10 TRSE-00 PM-09 PA-01  
OMB-01 STR-00 SIL-01 SMS-01 SAL-01 AGRE-00 FRB-03  
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R 251644Z NOV 81  
FM AMEMBASSY MOSCOW  
TO SECSTATE WASHDC 9415  
USDOC WASHDC  
INFO AMEMBASSY WARSAW  
AMEMBASSY BELGRADE  
AMEMBASSY BERLIN  
AMEMBASSY BONN  
AMEMBASSY BRUSSELS  
AMEMBASSY BUCHAREST  
AMEMBASSY BUDAPEST  
AMEMBASSY LONDON  
AMEMBASSY PARIS  
AMEMBASSY PRAGUE  
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AMEMBASSY VIENNA

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SAVING OF ENERGY WAS RAISED FROM 160,000,000 TO 200,000,000 MILLION TONS OF OIL. DURING MUCH THE SAME TIMEFRAME, WE RECEIVED VARIOUS REPORTS OF SOVIET CUTBACKS OF OIL EXPORTS TO EAST EUROPE. WITH RESPECT TO WEST EUROPE WE UNDERSTAND FROM FRENCH CONTACTS THAT CRUDE OIL SHIPMENTS THERE ARE WAY DOWN; THE SAME IS TRUE FOR WEST GERMANY. THE NETHERLANDS, HOWEVER, HAS APPARENTLY INCREASED ITS IMPORTS OF OIL AND OIL PRODUCTS FROM THE U.S.S.R. IF SOVIET OIL PRODUCTION IS IN FACT RISING SLIGHTLY, BUT EXPORTS TO BOTH EAST AND WEST EUROPE ARE DROPPING, WE FACE THE QUESTION OF WHETHER DOMESTIC CONSUMPTION IS NOT RISING FASTER THAN THE SOVIET PLANNERS EXPECTED OR, CONVERSELY, WHETHER STOCKPILING IS TAKING PLACE. AT ANY RATE, WE CANNOT DISCERN IN THE MANY PRESS ARTICLES PRAISING THIS OR THAT FACTORY FOR CONSERVATION ANY SIGNS THAT THE OVERALL PROGRAM TO SAVE ENERGY IS TAKING EFFECT.

9. LABOR PRODUCTIVITY: WITH 90 PERCENT OF THE RISE IN SOVIET PRODUCTION DURING THE NEXT FIVE YEARS TO COME FROM PRODUCTIVITY INCREASES, WE HAVE BEEN ON THE LOOKOUT FOR EVIDENCE OF ANY COMBINATION OF NEW EQUIPMENT AND INCENTIVES DESIGNED TO RAISE PRODUCTIVITY. ONLY IN THE CASE OF COLLECTIVE FARMERS, WHOSE INCOMES ARE CONTINUING TO RISE MORE RAPIDLY THAN THE SOVIET AVERAGE CAN WE ESTABLISH THAT REAL STEPS HAVE BEEN TAKEN. WE SHARE THE VIEW OF A SENIOR UKRAINIAN OFFICIAL ENCOUNTERED DURING CONGRESSMAN SIMON'S SUMMER VISIT TO KIEV: "VERY EASY TO SAY, PROBABLY IMPOSSIBLE TO DO."

10. INDUSTRIAL SECTORS: WE HAVE EXTENSIVELY REPORTED ON THE LIKELIHOOD OR OTHERWISE OF PLAN FIGURES BEING MET IN DIFFERENT BRANCHES OF THE SOVIET ECONOMY. OUT NATO COLLEAGUES SHARE OUR ESTIMATE THAT THE SOVIET ECONOMY IS LIKELY TO BE PLAGUED WITH UNEVEN GROWTH OVER THE NEXT FIVE YEARS. THE APPEARANCE OF A TIGHTENED HARD-CURRENCY SITUATION AFTER SEVERAL YEARS OF RELATIVE COMFORT SUGGESTS THAT THE MACHINERY REQUIRED FOR EXAMPLE TO GET OPEN-PIT COAL MINING MOVING IN SIBERIA IN PROPER FASHION MAY BE DIFFICULT TO COME BY. STEEL SHORTAGES ARE LIKELY TO CONTINUE

AND HAMPER KEY SECTORS, FOR EXAMPLE TRANSPORTATION. IMPORTS CANNOT PLUG ALL THE GAPS.

11. MANAGEMENT: THE PLENUM AND SUPREME SOVIET SESSION AGAIN MANAGED TO COME DOWN SQUARELY IN THE CENTER ON THE AGE-OLD QUESTION OF WHETHER OR NOT TO GIVE GREATER AUTHORITY TO PLANT MANAGERS AND LOCAL OFFICIALS. BREZHNEV MADE TWO REFERENCES IN HIS SPEECH TO THE DESIRABILITY OF GIVING LOCAL PLANT MANAGERS AND COLLECTIVE FARMS MORE CONTROL OF THEIR OWN RESOURCES. THEN, HE COMPLAINED THAT THE ESSENTIALLY CENTRALIST 1979 REFORMS (WHICH, HOWEVER, GIVES A LITTLE MORE LEEWAY TO PLANT MANAGERS) WERE NOT BEING CARRIED OUT QUICKLY ENOUGH. APPARENTLY, WE ARE TO SEE MORE PLAN INDICATORS THRUST ON ENTERPRISES AT THE SAME TIME AS THEY ARE TO SHOW MORE INITIATIVE. AGAIN, A FUTURE PLENUM IS TO DISCUSS THE ENTIRE PROBLEM. "PRAVDA" WAS QUICK TO SUPPORT THE LOCAL INITIATIVE IDEA IN A SEPTEMBER 22 PIECE DESCRIBING HOW A CELLULOSE FACTORY HAD CONSISTENTLY FAILED TO MEET ITS TONNAGE PRODUCTION GOALS, BUT WITHOUT COMPLAINTS FROM ANYWHERE; THE FACTORY HAD TAKEN UPON ITSELF TO IMPROVE THE QUALITY OF ITS PRODUCT WHILE REDUCING ITS WEIGHT TO EVERYONE'S SATISFACTION. IN ALL PROBABILITY, WE WILL SOON BE READING A COUNTER-THRUST CALLING UPON ENTERPRISES TO FULFILL MORE CLOSELY THE PLAN INDICATORS.

12. THE FOREIGN SECTOR: WE HAVE ALREADY NOTED THAT THE SOVIETS ARE APPARENTLY RECONSIDERING THE WORKINGS OF CMEA WITH A VIEW TO GREATER EFFICIENCY. SOME OBSERVERS WERE SOMEWHAT SURPRISED TO SEE

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BREZHNEV'S REFERENCE TO COMPENSATION DEALS: WE SURMISE THAT THIS SENTENCE WAS WRITTEN INTO HIS SPEECH AS A REFLECTION OF ANTICIPATED HARD CURRENCY PROBLEMS. IT COMES AT A TIME WHEN WESTERN BUSINESSMEN ARE INCREASINGLY OPPOSED TO SUCH DEALS.

14. CONCLUSION: WE CANNOT FIND IN THE REFERENCES TO THREE SPECIAL MEETINGS ON ECONOMIC SUBJECTS AND IN THE LACK OF SPECIFIC MEASURES ANY EVIDENCE THAT THE U. S. S. R LEADERSHIP HAS YET AGREED ON MUCH MORE THAN DEFINING THE NATURE OF THE PROBLEMS IT FACES. AN EXCEPTION IS THE NOVEMBER 23 DECREE (REF. D) LIMITING EMPLOYMENT ROLLS TO THOSE OF 1980; HERE AT LEAST A CLEAR STEP HAS BEEN TAKEN. THE EMPHASIS ON WORKER PRODUCTIVITY, EFFICIENCY AND CONSERVATION HAS NOT YET BEEN TRANSLATED INTO SPECIFICS. THE FEAR THAT WHAT MAY WELL TURN OUT TO BE DECLINING LIVING STANDARDS MIGHT SOMEDAY TEST EVEN THE PATIENCE OF STOIC SOVIET CONSUMERS IS NEVER VERY FAR FROM THE SURFACE IN THE CURRENT SPEECH-MAKING BUT THE MIX OF ANTICORRUPTION MEASURES AND APPEALS TO PATRIOTISM ON THE ONE HAND, AND VAGUE REFERENCES TO MATERIAL INCENTIVES ON THE OTHER LEAVES US FEELING THAT NO CLEAR STRATEGY HAS YET EMERGED. OUR GUESS IS THAT SUCH DECISIONS COULD CONCEIVABLY BE FORTHCOMING IN A YEAR OF SO. THUS, WE EXPECT 1982, THE SECOND YEAR OF THIS FIVE-YEAR PLAN, TO BE A PERIOD OF GESTATION AS IDEAS ARE BANDIED BACK AND FORTH WITHIN THE MAMMOTH SOVIET BUREAUCRACY. IT SEEMS LIKELY, THEREFORE, THAT NEXT YEAR'S PARTY PLENUM WILL BE FORCED TO DEAL WITH THE SAME ISSUES. END CONCLUSION. HARTMAN



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NSC-05 NSAE-00 HA-06 L-03 PM-09 PA-01 SMS-01  
SAL-01 ICAE-00 SP-02 SPRS-02 /063 W

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P 251541Z NOV 81  
FM AMEMBASSY MOSCOW  
TO SECSTATE WASHDC PRIORITY 9402  
INFO AMEMBASSY BELGRADE  
AMCONSUL Leningrad  
AMEMBASSY PRAGUE  
USMISSION USNATO

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C O R R E C T E D C O P Y (SECTION 01 OF 02 VICE 01 OF 03)

E.O. 12065: RDS-4 11/25/01 (PASCOE, B. LYNN) OR-P  
TAGS: PINT, UR

SUBJECT: 1981 NOVEMBER PLENUM AND SUPREME SOVIET  
- SESSION: LEADERSHIP AND GENERAL POLICY  
- IMPLICATIONS

REF: (A) MOSCOW 16071, (B) MOSCOW 15542, (C) MOSCOW  
- 15295, (D) MOSCOW 16197 (NOTAL), (E) MOSCOW  
- 16144, (F) MOSCOW 15258

1. ~~(C-ENTIRE TEXT)~~

2. SUMMARY: THE PARTY PLENUM AND THE SESSION OF THE USSR SUPREME SOVIET HAVE NOW COMPLETED THEIR WORK AND RATIFIED THE 11TH FIVE-YEAR PLAN AND THE 1982 PLAN AND BUDGET. THE MAJOR QUESTION CONFRONTING THE REGIME WAS WHETHER, IN ALLOCATING RESOURCES, TO CONTINUE TO EMPHASIZE PRIORITY GROWTH FOR CONSUMER GOODS INDUSTRIES. THE ANSWER WAS EQUIVOCAL: IT IS OUR INTENTION TO GIVE PRIORITY TO CONSUMER GOODS BUT WE DO NOT HAVE THE RESOURCES TO DO IT NOW. THIS POSITION APPEARS TO BE A COMPROMISE BETWEEN SUCH PAST CHAMPIONS OF THE CONSUMER AS BREZHNEV, CHERNENKO, AND GORBACHEV AND SPOKESMEN FOR HEAVY AND DEFENSE INDUSTRY SUCH AS KIRILENKO AND USTINOV. GIVEN ITS UNWILLINGNESS TO GIVE IMMEDIATE PRIORITY TO CONSUMER GOODS, THE REGIME IS LIKELY IN THE MONTHS AHEAD TO GIVE GREATER ATTENTION TO "POLITICAL MEANS" OF CONTAINING CONSUMER FRUSTRATION. END SUMMARY.

3. DESPITE THE COMMITMENT CONTAINED IN THE BREZHNEV AND BAYBAKOV SPEECHES TO GIVE PRIORITY GROWTH TO CONSUMER GOODS INDUSTRIES, THIS CONCEPT HAS BEEN EMBODIED ONLY IN THE NEW FIVE-YEAR PLAN. THE PLAN FOR 1982 CONTINUES TO FAVOR GROWTH RATES FOR CAPITAL GOODS INDUSTRIES, AND PUBLISHED ECONOMIC STATISTICS INDICATE THAT FOR THE FIRST NINE MONTHS OF 1981 THE GROWTH RATE FOR CONSUMER GOODS PRODUCTION LAGGED BEHIND THAT OF TOTAL INDUSTRIAL PRODUCTION (REF A). PRIORITY GROWTH RATES FOR CONSUMER GOODS THUS AWAIT IMPLEMENTATION IN THE 1983 PLAN, THE THIRD YEAR OF THE FIVE-YEAR PLAN. THAT THERE MAY BE SOME REGIME EMBARRASSMENT -- AND PERHAPS LEADERSHIP DISPUTES -- OVER POSTPONEMENT OF THE FULFILLMENT OF THE PROMISE TO THE CONSUMER IS INDICATED BY THE FAILURE OF THE PRAVDA LEAD EDITORIAL ON THE PLENUM AND SUPREME SOVIET (NOVEMBER 21) TO MENTION THE BREZHNEV PLEDGE.

4. THIS BACKTRACKING ON PREFERENCE FOR THE CONSUMER APPEARS TO BE AT LEAST A PARTIAL SETBACK FOR THOSE POLITBURO MEMBERS SUCH AS BREZHNEV AND CHERNENKO

WHO HAVE SINCE THE OCTOBER 1980 PLENUM CONSISTENTLY CHAMPIONED A "TURN TOWARD THE CONSUMER." AS PREVIOUSLY REPORTED (REF B), EMBASSY HEARD IN THE WEEKS BEFORE THE PLENUM OF MANEUVERING WITHIN THE POLITBURO APPARENTLY INVOLVING QUESTIONS OF RESOURCE ALLOCATION. CHERNENKO AND BREZHNEV REPORTEDLY WERE PEDDLING THE LINE -- AIMED AGAINST KIRILENKO -- THAT A GIEREK-LIKE STRATEGY OF PRIORITY ATTENTION TO CAPITAL INVESTMENT WOULD END IN A POLISH-LIKE FIASCO. IF THESE REPORTS ARE ACCURATE, IF KIRILENKO IN FACT WAS ARGUING AGAINST "RASH" COMMITMENTS TO THE CONSUMER, HE SUCCEEDED IN HOLDING THE LINE FOR HEAVY INDUSTRY FOR AT LEAST THE COMING YEAR. THIS MAY BE EXPLAINED AT LEAST IN PART, BY DEFENSE INCREASES. (JUDGING FROM BREZHNEV'S REMARK THAT CURRENT ECONOMIC WOES ARE IN PART A RESULT OF "THE WORSENING OF THE INTERNATIONAL SITUATION" AND THAT "DEFENSE NEEDS WILL CERTAINLY BE PROVIDED FOR," IT WOULD APPEAR THAT THE DEFENSE SECTOR FAIRED WELL IN THE COMPETITION FOR RESOURCES.)

5. AN EMBASSY SOURCE WITH CONTACTS IN LOWER PARTY CIRCLES TOLD EMBOFF THAT HE BELIEVES THAT THE IDEA TO HOLD A FUTURE PLENUM ON IMPROVING SOVIET MANAGERIAL PRACTICES AND IMPLEMENTATION OF THE 1979 PARTY-STATE ECONOMIC REFORM DECREES WAS ALSO INSPIRED BY KIRILENKO. ACCORDING TO THIS SOURCE, BOTH KIRILENKO AND USTINOV ARE WIDELY VIEWED BY MEMBERS OF THE PARTY AND INDUSTRIAL INTELLIGENTSIA AS FERVENT SUPPORTS OF CERTAIN MILDLY DECENTRALIZING FEATURES OF THE 1979 MEASURES, AND, IN GENERAL, AS PRAGMATISTS WHO FAVOR GIVING GREATER AUTHORITY TO PLANT MANAGERS AND PROVIDING

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P 251541Z NOV 81  
FM AMEMBASSY MOSCOW  
TO SECSTATE WASHDC PRIORITY 9403  
INFO AMEMBASSY BELGRADE  
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GREATER REWARDS FOR COMPETENT AND PRODUCTIVE WORKERS, EVEN IF AT THE EXPENSE OF UNSKILLED AND UNPRODUCTIVE WORKERS. BESIDES PRESUMABLY INCREASING PRODUCTIVITY, SUCH A STRATEGY BASED ON INCREASING PAY DIFFERENTIALS APPEALS, ACCORDING TO SOURCE, TO THE "ELITISM" OF THE PARTY AND INDUSTRIAL INTELLIGENTSIA.

6. SOURCE BELIEVE THAT THIS "WAGER ON THE STRONG" HAS ENCOUNTERED RESISTANCE FROM PARTY CIRCLES WORRIED ABOUT THE SOCIAL REPERCUSSIONS OF SUCH A STRATEGY - GREATER SOCIAL STRATIFICATION AND WORKER UNEMPLOYMENT RESULTING FROM FIRING INCOMPETENT AND UNPRODUCTIVE WORKERS. AS ALREADY REPORTED, OUR CONTACT BELIEVES THAT CHERNENKO HAD THE KIRILENKO "SCHOOL" IN MIND WHEN HE REMARKED IN HIS SEPTEMBER KOMMUNIST ARTICLE THAT IT IS NECESSARY TO DEFEND THE WORKERS FROM "ADMINISTRATORS-PRAGMATISTS IN WHOSE EYES A MAN IS ONLY A MEANS FOR FULFILLING THE PLAN." THE WIDELY FELT NEED FOR GREATER ECONOMIC EFFICIENCY AND DISCIPLINE, HOWEVER, HAS, SAID THE SOURCE, APPARENTLY PLAYED INTO THE "TECHNOCRATS'" HANDS AND COULD LEAD TO FURTHER VERY MODEST STEPS TOWARD LIMITED MEASURES OF DECENTRALIZATION.

7. THE ONE BIG PLUS FOR BREZHNEV (AND PRESUMABLY GORBACHEV) WAS THE PLENUM'S COMMITMENT TO HOLD A PLENUM ON THE "FOOD PROGRAM" WHICH WAS FIRST ANNOUNCED BY THE GENERAL SECRETARY AT THE OCTOBER 1980 PLENUM. EVEN HERE, HOWEVER, THE BLESSING IS MIXED. AGRICULTURAL INVESTMENT HAS BEEN INCREASED, BUT THE ACTUAL SHAPE OF THE "FOOD PROGRAM" IS UNCLEAR. AS WE HAVE PREVIOUSLY REPORTED (REF C) THE FOOD PROGRAM HAS BEEN SUBJECT TO REPEATED DELAYS AND DISPUTES WITHIN THE BUREAUCRACY. NO PRECISE DATE HAS BEEN ANNOUNCED FOR THE PLENUM DEALING WITH THIS MATTER AND, AS OF THIS WRITING, NO ONE KNOWS WHEN "THE PERSONAL INITIATIVE OF LEONID IL'ICH," AS THE FOOD PROGRAM HAS BEEN TERMED, WILL SEE THE LIGHT OF DAY.

8. THESE KIND OF COMPROMISES ON ALLOCATION OF RESOURCES AND ECONOMIC STRATEGY HAVE, OF COURSE, BEEN THE HALLMARK OF THE BREZHNEV YEARS. THEY ARE NOW OCCURRING, HOWEVER, IN A DETERIORATING ECONOMIC ENVIRONMENT IN WHICH EVEN HARD-LINE CONSERVATIVE COMMENTATORS SUCH AS YURI ZHUKOV ARE PRIVATELY VOICING FRUSTRATION OVER THE ECONOMIC IMPASSE (REF D). THE LEADERSHIP'S ABILITY TO MAINTAIN AT LEAST A FACADE OF UNANIMITY AND CONSENSUS HAS COME AT THE EXPENSE OF A GROWING

IMPRESSION OF IMMOBILITY AND STALEMATE.

9. GIVEN THE DEARTH OF NEW ECONOMIC INITIATIVES, THE LEADERSHIP APPEARS TO BE MOVING TO CONTAIN CONSUMER FRUSTRATION THROUGH ESSENTIALLY "POLITICAL MEANS." IN RECENT WEEKS THE REGIME'S PROPAGANDA EFFORTS HAVE INCREASINGLY FOCUSED ON THE FIGHT AGAINST CORRUPTION AND PRIVILEGE, PARTICULARLY AMONG OFFICIALS. AZERBAYDZHAN PARTY CHIEF ALIYEV, FOR INSTANCE, IN A RECENT FULL-LENGTH INTERVIEW IN LITERATURNAYA GAZETA HAS GIVEN A STERN WARNING TO PARTY AND STATE CADRES AGAINST GRAFT AND CORRUPTION, IMPLYING THAT ADDITIONAL LEGAL MEASURES MAY BE NEEDED TO "DISCIPLINE" WAYWARD CADRES (REF E). THE SOVIET PRESS HAS REPORTED ADDITIONS TO THE RSFSR CRIMINAL CODE DEALING WITH EXTORTION AND BRIBERY (REF F), AND WE HAVE RECEIVED A NUMBER OF REPORTS THAT LEGAL ORGANS IN MOSCOW HAVE BEGUN TO INSTITUTE A CRACKDOWN ON BLACKMARKETEERING AND FRAUD (REF E).

10. THE HIGH VISIBILITY OF THIS CAMPAIGN INDICATES THAT IT IS DESIGNED IN LARGE MEASURE TO "PERSONALIZE" POPULAR FRUSTRATION AND ANGER, TO DEFLECT CRITICISM FROM THE VERY TOP OF THE POLITICAL LEADERSHIP, AND TO GIVE THE APPEARANCE THAT THE LEADERSHIP IS SYMPATHETIC TO THE PEOPLE'S WOES. IT MAY HAVE THE ADDITIONAL POLITICAL ADVANTAGE OF BEING A COURSE OF ACTION ON WHICH ALL POINTS OF VIEW REPRESENTED IN THE POLITBURO CAN AGREE.  
HARTMAN

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