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Collection: Executive Secretariat, NSC: Country

File: Records, 1981-1985

Folder Title: Soviet Bloc Economic and Financial

Situation Update: (05/28/1982)

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Ronald Reagan Library

Collection Nan	ne EXECUTIVE SECRETARIAT, NSC: COUNTRY FIL	LE	With	drawer
			KDB	8/27/2015
File Folder	SOVIET BLOC ECONOMIC AND FINANCIAL SIT	UATIO	N <i>FOIA</i>	
	UPDATES (5/28/82)		F03-0	02/5
Box Number	19		SKIN	NER
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ID Doc Type	Document Description	No of Pages	Doc Date	Restrictions
Турс		rages		
168943 MEMO	W. MARTIN THROUGH N. BAILEY TO W.	5	5/28/1982	B1
	CLARK: SOVIET BLOC ECONOMIC AND			
	FINANCIAL SITUATION UPDATE #24			
	PAR 1/22/2013 CREST NLR-74	8-19- 3	39-1-4	
168944 REPORT	RE SOVIET ECONOMIC REFORM (PAGES III-V ONLY)	3	5/1/1982	B1
	R 1/13/2012 CREST NLR-74	8-19- 3	<i>19-7-3</i>	
168945 CABLE	RE USSR	4	5/24/1982	B1
168946 CABLE	RE SOVIETS	3	5/26/1982	B1
168947 CABLE	RE USSR	2	5/21/1982	B1
168948 CABLE	RE USSR	3	5/26/1982	B1
168949 CABLE	251226Z MAY 82	1	5/25/1982	B1

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B-9 Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

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Collection Name EXECUTIVE SECRETARIAT, NSC: COUNTRY FILE Withdrawer **KDB** 8/27/2015 SOVIET BLOC ECONOMIC AND FINANCIAL SITUATION **FOIA** File Folder **UPDATES (5/28/82)** F03-002/5 **SKINNER Box Number** 19 116 ID Doc **Document Description Doc Date Restrictions** No of **Type Pages** 168950 CABLE **RE USSR** 5/22/1982 B1 5/25/1982 B1 168951 CABLE 251335Z MAY 82 168952 REPORT RE USSR (PAGE 5 ONLY) 1 5/25/1982 B1 168953 CABLE 220020Z MAY 82 3 5/22/1982 B1 9/16/2013 CREST NLR-748-19-39-4-1 168954 CABLE 191544Z MAY 82 3 5/19/1982 B1 CREST NLR-748-19-39-5-0 9/16/2013 D 168955 REPORT RE USSR (PAGES III-IV ONLY) 5/1/1982 B₁ 168956 CABLE 251315Z MAY 82 1 5/25/1982 B1

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File Folder SOVIET BLOC ECONOMIC AND FINANCIAL SITUATION

UPDATES (5/28/82)

F03-002/5

FOIA

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168957	REPORT	(EXCER	RPT)	1	5/25/1982	B1
168958	CABLE	2513072	Z MAY 82	1	5/25/1982	B1
168959	CABLE			2	5/24/1982	B1
168960	CABLE	242254Z PAR	ZMAY 82 9/24/1982		5/24/1982	B1
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168961	CABLE	1921387	Z MAY 82	1	5/19/1982	B1
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168962	CABLE	201650Z	Z MAY 82	2	5/20/1982	B1
168963	CABLE	251808Z	Z MAY 82	1	5/25/1982	B1

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168966	CABLE				3	5/25/1982	B1

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168943 MEMO 5 5/28/1982 B1

W. MARTIN THROUGH N. BAILEY TO W. CLARK: SOVIET BLOC ECONOMIC AND FINANCIAL SITUATION UPDATE #24

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MEMORANDUM

3766

NATIONAL SECURITY COUNCIL

May 28, 1982

TOP SECRET/CODEWORD

INFORMATION

MEMORANDUM FOR WILLIAM P. CLARK

THROUGH:

SUBJECT:

NORMAN A. BAILEY 715

FROM:

WILLIAM F. MARTIN WFM

Soviet Bloc Economic and Financial Situation Update #24

WPC HAS SEEN DECLASSIFIED IN PART

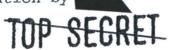
NIRR 148-14-35-1-4

Soviet Union

25X.

TOP SECRET/CODEWORD Review May 22, 2012

Derivative Classification by



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is an admission of the	government's	failure to dea	al effectivel	Y
with Romania's chronic	economic sho	rtcomings (Tab	Q). (2)	
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No Objection to Declassification in Part 2013/01/22: NLR-748-19-39-1-4

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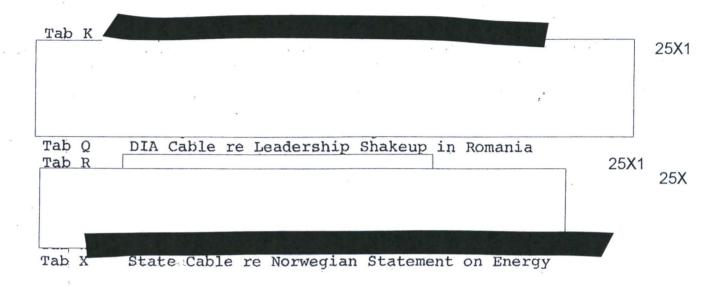
-- Norway's Prime Minister Willock is planning to make a statement at the Bonn NATO Summit emphasizing the role Norway's natural gas reserves can play in minimizing the need for further European reliance on gas from the Soviet Union (Tab X).

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Tab J		tw 1	25X1

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cc: Tom Reed
Don Gregg
Richard Pipes
Henry Nau
Paula Dobriansky

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Confidential

168949

Soviet Economic "Reform" Decrees: More Steps on the Treadmill (U)

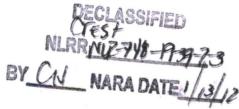
Overview

In July 1979 the Soviet leadership issued a decree setting forth new measures to improve planning and performance of the economy. This decree, together with its more than 80 implementing regulations and a July 1981 amendment, is no more likely than its predecessor of October 1965 to raise the economy's efficiency. Indeed, by forcing managers to spend more time coping with increasingly complicated regulations, the latest "reforms" may make matters worse.

The principal goals and features of the new arrangements, presumably to be in effect in the 11th Five-Year Plan (1981-85) and beyond, are:

- To improve *planning* by focusing on five-year rather than annual plans and on integrating a few comprehensive programs. All plans are supposed to be "balanced" (in terms of input and output) and to remain stable for the five-year period.
- To link *prices* more with costs by introducing new industrial wholesale prices on 1 January 1982, incorporating in them a new charge for water usage and sharply higher social insurance taxes.
- To replace a major success criterion—gross value of output, which leads enterprises to prefer expensive inputs—with another indicator, "normative net output" (average value added).
- To tie enterprise and worker *incentives* to a variety of five-year plan targets, measured in physical units as well as in rubles and focused on raising efficiency and product quality.
- To require all entities—from enterprises to ministries—to *finance* their operations from their own funds and bank credits, rather than receive partial funding from the state budget.
- To make the *investment process* more effective by requiring that approved plans remain unchanged for the five-year period, that all plans be backed with the requisite material and financial resources, and that bank credits rather than customers' funds be used to finance construction in progress.

Many of the new measures are aimed directly at resolving two problems that Soviet planners rightly regard as especially critical—limiting the demand for labor and economizing on the use of fuel and raw materials.



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Because increments to the labor force will decline drastically during the 1980s, the authorities must limit labor demand to supply to keep the growth of wages in line with slower growth in consumer goods and services. This effort is linked to the need to boost labor productivity by squeezing out the "hidden labor reserves" that Soviet planners believe are ubiquitous. The new measures include compilation of regional labor balances, imposition of employment ceilings, tightening of work norms, tying managerial bonuses to meeting plans for labor productivity, allowing firms to keep the wages saved by meeting plans with a reduced work force, and organizing work brigades as a means of imposing group discipline. Although these measures should aid the planners in facing difficult manpower problems, probably the most effective factor will be that extra workers will simply not be there.

Other measures are intended to cope with shortages of critical raw materials that threaten the economy. These measures include a greatly expanded role for plan targets focused on savings on such resources per unit of output, imposition of tighter input reduction norms in physical terms, and directly tying incentives to meeting targets. The new prices will raise the cost of most raw materials, and the shift to net output targets is intended to remove the incentive to maximize the use of intermediate inputs. Most of these measures have advantages but their effectiveness will be severely diminished by the inability of new rules to eliminate the old indicators. There simply are too many conflicting indicators. Also, in an essentially unchanged environment, the response of enterprises to new cost relationships is likely to be sluggish and limited.

Various measures are aimed at improving economic performance in general. The new planning emphases reflect the Soviet planners' *idee fixe* that better plans will guarantee better performance. Eleven of the much touted "comprehensive programs" have been included in the 1981-85 plan. Many more plan balances are being prepared than ever before. An array of new incentive arrangements to improve product quality and a complicated new state certification procedure have been introduced. Still other provisions and organizational rearrangements are designed to solve the perennial problems created by the cumbersome system of distributing material inputs to producers, notably a greater role for contracts and stiffer penalties for violations. A package of financial provisions is aimed at

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eliciting more efficient operations everywhere. Finally, new centralized organizational structures have been set up to coordinate several large programs and to oversee the campaign to enforce raw material and energy savings.

The changes in working arrangements do not constitute a genuine reform of the economic system. Rather, they reinforce the traditional features that have wasted resources on a grand scale. Because planning is now more centralized, rigid, and detailed than ever before, the producing unit is more fettered. Producer goods are more tightly rationed; administratively set, average cost-based prices are retained; and Byzantine incentive systems tie rewards and punishments to meeting plan targets expressed in physical units. The modifications of the past two and a half years are no panacea for the Soviet economy. Rather, they move the system away from the decentralization, flexibility, and introduction of market elements, which most Western (and some Soviet) critics believe are needed.

The above information is Confidential.

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168945 CABLE

RE USSR

4 5/24/1982 B1

- B-1 National security classified information [(b)(1) of the FOIA]
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168946 CABLE

RE SOVIETS

3 5/26/1982 B1

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168947 CABLE

RE USSR

2 5/21/1982 B1

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Freedom of Information Act - [5 U.S.C. 552(b)]

168948 CABLE

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168949 CABLE

1 5/25/1982 B1

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168950 CABLE

2 5/22/1982

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168952 REPORT

1 5/25/1982

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RE USSR (PAGE 5 ONLY)

Freedom of Information Act - [5 U.S.C. 552(b)]

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168954 CABLE

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3 5/19/1982 B1

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168955 REPORT

2 5/1/1982 B1

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251315Z MAY 82

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168957 REPORT

1 5/25/1982

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251307Z MAY 82

1 5/25/1982 B1

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168959 CABLE

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DIADIN 144-5A (A5 OF: 1600 EDT 24 MAY 82) SUBJ: DIA DEFENSE INTELLIGENCE NOTICE (DIN) (U) ROMANIA: LEADERSHIP SHAKEUP. (U)

- (C/NOFORN) THE 21 MAY SHAKEUP IN GOVERNMENTAL LEADERSHIP IS THE MOST SIGNIFICANT RESHUFFLE SINCE 1978. THE DISMISSAL OF ILIE VERDET AS PRIME MINISTER AND CORNEL BURTICA AS MINISTER OF FOREIGN TRADE REMOVES TWO LEADING ADVOCATES OF BUCHAREST'S OPENING ECONOMIC LINKS TO THE WEST.
- (C/NOFORN) THE APPOINTMENTS OF CONSTANTIN DASCALESCU AND NICOLAE CONSTANTIN TO REPLACE VERDET AND BURTICA ARE IMPORTANT FOR SEVERAL REASONS. CONSTANTIN IS ROMANIA'S REPRESENTATIVE TO THE COUNCIL OF MUTUAL ECONOMIC ASSISTANCE (CEMA); HIS APPOINTMENT PROBABLY REFLECTS BUCHAREST'S DISAPPOINTMENT OVER THE WEST'S GROWING RELUCTANCE TO CONTINUE TO LIBERALLY FUND ROMANIA IN ITS INCREASINGLY VULNERABLE FINANCIAL STATUS. DASCALESCU WILL STRENGTHEN HIS CONTROL OVER MINISTERIAL PERSONNEL AND GOVERNMENTAL ORGANS, AREAS IN WHICH HE HAS PREVIOUSLY EXERTED SOME INFLUENCE AS PARTY SECRETARY. OWING TO DASCALESCU'S REPUTATION AS A FAITHFUL EXECUTOR OF PARTY SECRETARY GENERAL CEAUSESCU'S POLICIES, THE ROMANIAN LEADER LIKELY INTENDS TO TAKE A MORE DIRECT ROLE IN DAY-TO-DAY DECISIONMAKING THROUGH THE PRIME MINISTER.
- 3. (C/NOFORN) THE DISMISSAL OF VERDET AND BURTICA IS AN ADMISSION OF THE NATIONAL GOVERNMENT'S FAILURE TO DEAL EFFECTIVELY WITH ROMANIA'S CHRONIC ECONOMIC SHORTCOMINGS. THEIR FORCED RESIGNATIONS ALSO REFLECT PRESIDENT CEAUSESCU'S SENSITIVITY TO THE CHARGES OF NEPOTISM: BOTH MEN ARE RELATED TO HIM BY MARRIAGE. THE REMOVAL OF VERDET AND BURTICA, LONGTIME POLITICAL ALLIES OF THE PRESIDENT, UNDERSCORES CEAUSESCU'S SERIOUSNESS IN TRYING TO COME TO GRIPS WITH THE WORSENING ECONOMY. THE DISMISSALS ALSO REMOVE TWO FIGURES WHO WERE NOT AS RESTRAINED AS THE NEW OFFICIALS IN CRITICIZING CEAUSESCU AND HIS POLICIES.
- (C/NOFORN) ROMANIA'S PRECARIOUS ECONOMIC STANDING PROBABLY WILL NOT IMPROVE MUCH IN THE NEAR FUTURE, DESPITE THE LEADERSHIP CHANGES. BUCHAREST, HOWEVER, WILL QUITE LIKELY BECOME MORE ACCOMMODATING IN RELATIONS WITH ITS CEMA PARTNERS WHILE KEEPING OPEN ITS ECONOMIC LINKS TO THE WEST. LIKEWISE, THE MAVERICK NATURE OF CEAUSESCU'S FOREIGN POLICY SHOULD NOT CHANGE. PREPARED BY: [(REVW 24 MAY 88) 25x1

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192138Z MAY 82

1 5/19/1982 B1

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201650Z MAY 82

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1 5/25/1982 B1

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SPECIAL RESEARCH DET; COMOT COASTGUARD FOR POLAD: HQ TAC FOR TACOPS/INOI; HOS DSA FOR CIS; BERGSTROM AFB TEX FOR 67TH TRW DO; NPIC FOR PB CABLES; CINCUSAFE FOR INOCH XPNN; HQ MAC SCOTT AFB IL FOR INZ; CDR ITAC FOR GIPD, 24 COMP WING HOWARD AFB IN IN: BAF BARKSDALE AFB LA/INZE; 15AF MARCH AFB CA/INZE; 92BMV FAIRCHILD AFB WA/IN, 12 TIS BERGSTRON AFB FOR INI. LATIN AMERICA BRIEF OCPAS LA 82-188 (24 MAY 1982). FROM: DDI/O/CPAS.

THERE WAS NO LAB 99 FOR 28 MAY 1982.

- 1. CUBA: SHIFT IN AGRICULTURAL POLICY.
- 2. EL SALVADOR: CHARGES IN REFORMS.
- 3. OPEC: QUOTAS UNCHANGED.
- 1. CUBA: SHIFT IN AGRICULTURAL POLICY.

PUBLIC DISSATISFACTION AND ECONOMIC WOES APPARENTLY HAVE LED PRESIDENT CASTRO TO EASE SOMEWHAT HIS EFFORTS TO CURB PRIVATE ENTERPRISE IN AGRICULTURE. (C)

IN A SPEECH LAST WEEK BEFORE THE NATIONAL ASSOCIATION OF PRIVATE FARMERS, CASTRO BACKED AWAY FROM EARLIER THREATS TO CLOSE CUBA'S FREE MARKETS. HE WARNED, HOWEVER, THAT PRICES COULD NOT FALL AS LOW AS THE CONSUMER WOULD LIKE WITHOUT CAUSING A DECREASE IN AGRICULTURAL PRODUCTION THAT WOULD DIVERT FARM PRODUCTS TO THE BLACK MARKET AND THUS RESULT IN EVEN HIGHER PRICES. CET

COMMENT: CASTRO NOW EVIDENTLY SEES THE MARKETS -- WHICH HAVE PLAYED A KEY ROLE IN STIMULATING AGRICULTURAL PRODUCTION-AS A NECESSARY EVIL. HIS TURNABOUT REFLECTS UNUSUAL SENSITIVITY TO PUBLIC OPINION AND PROBABLY STEMS PARTLY FROM HIS CONCERN THAT A "POLISH" PROBLEM NOT DEVELOP IN CUBA. THE PRESIDENT IS LIKELY TO FACE PRESSURE BOTH FROM GOVERNMENT HARDLINERS --WHO WANT TO BRING THE AGRICULTURAL SECTOR COMPLETELY UNDER STATE CONTROL -- AND THE TECHNOCRATS, WHO ADVOCATE EVEN MORE

PRAGMATIC ECONOMIC POLICIES. JEY

RESTRICTIONS WHICH HIGHT EVENTUALLY BE IMPOSED, INCLUDING PRICE CONTROLS, TAXES AND CLOSER GOVERNMENT SUPERVISION, PROBABLY WOULD RESULT IN LOWER AGRICULTURAL PRODUCTION. OTHER STEPS THAT THE REGIME IS STILL PLANNING TO TAKE TO REGULATE PRIVATE FARMERS ARE LIKELY TO HAVE THE SAME EFFECT.

2. //EL SALVADOR: CHANGES IN REFORMS.//

//THE CONSTITUENT ASSEMBLY THIS WEEK PASSED A BILL INITIATED BY PRESIDENT MAGANA THAT LIMITS CONTINUED DISTRIBUTION OF RENTED LANDS. ASSEMBLY LEADERS HAVE ASSURED THE PEASANTS, HOWEVER, THAT ALL PAST AND PENDING CLAIMS TO LAND WILL BE HONORED AND THAT REVISIONS IN REFORM LAWS WILL NOT REVERSE THE PROCESS BEGUN BY THE COUP OF OCTOBER 1979. THE PRIVATE SECTOR AND GOVERNMENT CONSERVATIVES BELIEVE THAT REVISIONS OF EXISTING LAND REFORMS -- AS WELL AS CHANGES IN BANKING AND EXPORT LAWS -- ARE NEGESSARY TO REJUVENATE THE ECONOMY. // (S)

//COMMENT: SUCH REVISIONS ARE LIKELY TO TAKE SOME TIME. SWEEPING CHANGES -- ALTHOUGH APPARENTLY NOT CONTEMPLATED AT THIS STAGE -- PROBABLY WOULD FURTHER UNSETTLE EL SALVADOR'S FOREIGN BENEFACTORS AND HIGHT DELAY VITALLY NEEDED ECONOMIC AND MILITARY AID. THE LAND REFORM CHANGES ANNOUNCED THUS FAR WILL GIVE LEFTWING EXTREMISTS A PROPAGANDA TOOL THAT THEY ARE CERTAIN TO EXPLOIT AT HOME AND ABROAD. // JCY

3. OPEC: QUOTAS UNCHANGED.

OPEC OIL MINISTERS ANNOUNCED ON 21 MAY, AT THE CONCLUSION OF THEIR MEETING IN ECUADOR, THAT THE PRODUCTION CEILING FOR CRUDE OIL OF 17.5 HILLION BARRELS PER DAY ESTABLISHED IN MARCH WOULD NOT BE CHANGED. THE MINISTERS ARE DIVIDED, HOWEVER, ON HOW MUCH LONGER PRODUCTION QUOTAS SHOULD BE MAINTAINED. SAUDI ARABIA AND THE UNITED ARAB EMIRATES OPPOSE THE CONTINUATION OF PRODUCTION RESTRICTIONS AFTER

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DEMAND FOR OPEC OIL RECOVERS LATER IN THE YEAR. THE CONFERENCE REAFFIRHED THE FREEZE ON THE PRICE OF THE OPEC BENCHMARK CRUDE AT \$34 PER BARREL. (C)

//COMMENT: IT WOULD HAVE BEEN PREMATURE TO INCREASE QUOTAS AT THIS TIME. ATTEMPTS TO SELL LARGE ADDITIONAL QUANTITIES OF CRUDE OVER THE NEXT MONTH OR SO WOULD TEND TO DRIVE PRICES DOWN AGAIN BECAUSE COMPANIES ARE STILL UNLOADING EXCESS STOCKS. ONCE THE STOCK ADJUSTMENT IS COMPLETE, PROBABLY DURING THE THIRD QUARTER OF THIS YEAR, DEHAND FOR OPEC OIL SHOULD INCREASE BY AS MUCH AS 3 MILLION TO 4 HILLION BARRELS PER DAY. AT THAT TIME, OPEC MEMBERS ALMOST CERTAINLY WILL IGNORE ANY QUOTAS AND PRODUCE MORE OIL.// (C)

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E.O. 12065: RDS-1 5/ TAGS: ENRG, NATO, NO SUBJ: NATO SUMMIT: NORWEGIAN STATEMENT ON ENERGY

CONFIDENTIAL ENTIRE TEXT

2. PRIME MINISTER WILLOCH PLANS TO MAKE A STATEMENT ON EVERGY AT NATO SUMMIT. STATEMENT IS NOW BEING DRAFTED BY MINISTRY OF PETROLEUM AND ENERGY (MPE). MPE ST SECRETARY HANS HENRICH RAMM TOLD US ON MAY 26 THAT MPE STATE ESSENTIAL PRINCIPLES OF WILLOCH STATEMENT ON ENERGY ARE EXPECTED TO BE AS FOLLOWS:

3. WILLOCH STATEMENT (DRAFT): "NORWAY IS AWARE OF NEED FOR WESTERN EUROPEAN COUNTRIES TO MAKE ENERGY CHOICES IN NEXT FEW YEARS BETWEEN THE SOVIET UNION AND OTHER SUPPLIERS FOR THE ENERGY MARKET OF THE 1990'S. NORWAY HAS MAJOR GAS RESERVES WHICH IT IS WILLING TO DEVELOP TO MEET EUROPEAN NEEDS. WHETHER NORWAY WILL DEVELOP THESE RESERVES DEPENDS ON COMMERCIAL NEGOTI-ATIONS BETWEEN PRIVATE SELLERS AND PURCHASERS. THE GON IS NOT COMMITTED TO ACHIEVING AN OIL/GAS PARITY PRICE. AT SAME TIME IF COMMERCIAL NEGOTIATIONS DO NOT ACHIEVE A REALISTIC PRICE FOR GAS THEN IT WILL BE IN NORWAY'S INTEREST TO DEVELOP CRUDE OIL RATHER THAN END STATEMENT.

4. IN RESPONSE TO OUR QUERY, RAMM SAID SERIOUS EUROPEAN/ NORWEGIAN PRICE NEGOTIATIONS ARE ALREADY UNDERWAY CONCERNING SLEIPNER HE THOUGHT SERIOUS PRICE NEGOTIATIONS ON 31 AREA GAS. AREA GAS COULD BEGIN AS EARLY AS 1983.

5. WE WILL ATTEMPT TO GET FINAL VERSION OF STATEMENT PRIOR TO NATO SUMMIT. AUSTAD

National Security Council The White House

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Package # 3766

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ID. 8203766 5 NSC/S PROFILE TOP SECRET/CODEWORD UNCLASSIFIED UPON REMOVAL RECEIVED 28 MAY 82 17 OF CLASSIFIED ENGLOSURED TO CLARK DOCDATE 28 MAY 82 BAILEY 28 MAY 82 KEYWORDS: USSR EUROPE EAST CUBA **ECONOMICS** SUBJECT: SOVIET BLOC ECONOMIC & FINANCIAL SITUATION UPDATE #24 ACTION: FOR INFORMATION DUE: STATUS IX FILES FOR ACTION FOR CONCURRENCE FOR INFO CLARK COMMENTS REF# LOG NSCIFID (N /) ACTION OFFICER (S) ASSIGNED ACTION REQUIRED DUE COPIES TO