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9697	CABLE	301808Z DEC 83 [12 - 18] R 7/7/2008 NLRRF06-114/7	7	12/30/1983	B1
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9691	MEMO	MATLOCK TO POINDEXTER RE SOVIET SHIPPING TO PICK UP GRAIN [23 - 23] R 7/7/2008 NLRRF06-114/7	1	2/27/1984	B1
9692	E-MAIL	E-MAIL PROFS POINDEXTER LEVINE RE SOVIET SHIPPING TO PICK UP GRAIN [24 - 24] R 7/7/2008 NLRRF06-114/7	1	2/24/1984	B1
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9698	CABLE	191845Z MAR 84 [29 - 31]	3	3/19/1984	B1
9694	MEMO	MATLOCK TO MCFARLANE RE MEETING OF U.S.-USSR TRADE AND ECONOMIC COUNCIL [34 - 35] R 6/25/2009 F2006-114/7	2	4/2/1984	B1
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ID	Doc Type	Document Description	No of Pages	Doc Date
A	MEMO	MATLOCK TO ROBERT C MCFARLANE, RE THE ECONOMIC SUMMIT [26-27]	2	3/27/1984

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File USSR Economy

KURASHVILI EXAMINES ECONOMIC REFORM OPTIONS

PM231551 Novosibirsk EKO: EKONOMIKA I ORGANIZATSIYA PROMYSHLENNOGO PROIZVODSTVA in Russian No 10 (112) 1983 (Signed to Press 6 Sep) pp 34-57 -- FOR OFFICIAL USE ONLY

[Article by Candidate of Legal Sciences B.P. Kurashvili of the USSR Academy of Sciences State and Law Institute, Moscow, under the rubric "Improving the Economic Machinery": "The Fate of Sector Management" -- uppercase passages printed in boldface]

[Text] The 26th party congress and the CPSU Central Committee November (1982) and June (1983) Plenums set a task of tremendous historical significance -- that of ensuring a decisive transition to predominantly intensive economic growth factors, accelerating scientific and technical progress, and improving the standard of production organization. In the current decade the country's national economy must take a qualitative leap forward and reach new horizons of economic and social efficiency.

In his speech at the CPSU Central Committee June (1983) Plenum Yu.V. Andropov said: "In our social development we have now reached the historical stage where profound qualitative changes in production forces and a corresponding improvement in production relations have become not only urgent but inevitable. That is not merely our desire, comrades; it is an objective necessity and there is, so to speak, absolutely no avoiding it."

Can the established system of national economic management be preserved any longer in the face of such changes? Hardly. The management system cannot but undergo substantial changes when what is being managed is changing qualitatively. This is a truly objective necessity which will, sooner or later, carve itself a path.

Of course general considerations like this are not enough when the question of a substantial change in the system of national economic management is being formulated. This is a concrete question that requires concrete analysis of the existing situation. Such an analysis has been in progress for many years at party congresses and CPSU Central Committee plenums and in science and journalism. Many very substantial shortcomings in the management system have been exposed and presented for public examination. They are all associated in one way or another with the present sector system of management. It has been stated clearly and unambiguously that "our work to improve and restructure the economic machinery and the forms and methods of management has fallen behind the demands made by the level achieved in the material-technical, social, and spiritual development of Soviet society" (Footnote 1) (Yu.V. Andropov, "Karl Marx' Teaching and Certain Questions of Socialist Building in the USSR," KOMMUNIST, 1983, No. 3, p 13).

The Multidepartmental Approach and Intensification Factors: One "Pro" and Five "Cons"

Despite all the historical services of the present system of sector management, it cannot provide scope for the operation of the intensive development factors that characterize production today.

Of course it would be an oversimplification to think that the existing system has no basis in the structure and dynamics of production. This basis is the growth in the scale of production of individual products or groups of related products. When the volume of output of a given product and the number of enterprises in the sphere concerned become significant, as soon as the new "sector" is deemed "important," a new department is created to manage it. More than 50 USSR ministries and other departments (all-union and union-republican) are currently involved in sector management in the national economy. But does it necessarily follow that production specialization leads, as it has become customary to believe, to management specialization at the level of state organs? No, strictly speaking it does not follow. Of course, the fact that things have turned out that way in practice does not mean this will always be so. The relationship between the present system of sector management and many factors in present-day production is, to put it mildly, complex. What are these factors? They include the following.

First -- the diversification of production and integration between sectors within the basic level of the production organism. Within the framework of a single enterprise (hereafter we will not add on each occasion, or production association) it is becoming increasingly advantageous to combine production facilities belonging to different sectors. This leads ultimately to waste-free production in fewer stages and promises tremendous economic and ecological benefits. At the same time the present sector management system is very far from taking this factor into account.

A fairly typical example: By-product raw materials which are valuable but "not our specialty" will be sent to the dumps like useless rock by, say, an enterprise that extracts apatites. Is it a coincidence that the directive adopted in 1973 on the creation of diversified production associations has gotten bogged down in the departmental labyrinths? At the same time there is no such thing as sector "purity" in departmental economic systems. So as not to be dependent on inaccessible or careless suppliers, enterprises acquire a "subsistence" system of supply production facilities, usually semi-amateur. Diversification? Sorry, that's not it. Necessary diversification is held back but its unnecessary semblance, which is senseless from the national economic viewpoint, is spreading....

The second factor -- the technical and technological retooling of production on the basis of scientific achievements -- also, as a rule, cuts across sectors. Extensive related groups of highly specialized technical systems and technologies are based on the same scientific-technical ideas and design solutions. But large-scale technical innovations are held back by the fact that departments orient their own scientific institutions toward the preferential solution of problems narrowly confined to the sector and display a heightened commitment only to ongoing improvements in sector-based production.

The third factor is the rationalization of the territorial structure of production and the harmonious formation of territorial national economic complexes as relatively independent elements of the country's unified national economic complex. This too suffers strong negative effects from departmental fragmentation.

Side attention has long been drawn to such phenomena as the desire of sector management organs to keep under their own direct jurisdiction enterprises which it would be expedient to hand over to republican and local organs; poor collaboration locally between enterprises belonging to different departments (instead of direct contacts, by the shortest route, they communicate through their "own" ministries in Moscow); and the inadequate coordination of the actions of republican and local organs in developing the production infrastructure which is common to them all.

The fourth factor is the "human" factor. This multifaceted factor is the most important in the analysis of any system of social management. The scientific and technical revolution seems at first glance to refute, but in reality reaffirms -- with new force and largely in a new way -- the law that the decisive role in production, and particularly in intensive production, belongs to the working person -- both the direct production worker and (now more than before) the organizer.

Many justified complaints have been made in the press against departments: they incorrectly and at times senselessly restrict the financial autonomy and socialist initiative of enterprises. But the whole point is that the present sector departments act in the way that is natural for them. They were and are organs of direct management of their own "projects," the embodiment of the maximum centralization of management, the champions of the command style. This is in their blood, and we can hardly count on their being able to change their nature.

The fifth factor is the increase in the controlling role of the consumer in the economic machinery. The periodical press has long been publicizing many instances where the consumer's interests and the criteria of social usefulness in general are ignored: where materials-intensiveness is inflated for the sake of fulfilling the plan in terms of volume, where construction delays arise from the fact that "advantageous" work is carried out while "disadvantageous" work is postponed, where the plan for the product mix is not fulfilled, where too much stock is accumulated, where the production of cheap goods is reduced or halted and costly goods are "substituted," and so forth. Sector departments, which by virtue of their status as state (state!) organs should safeguard society's interests, are conducting the struggle against phenomena of this kind sluggishly and reluctantly, being unwilling to cut off the branch (the percentage of plan fulfillment) on which they are sitting together with their enterprises. When the activity of a sector department and that of its subordinate enterprises is evaluated on the basis of the same indicators, this cannot fail to lead to elements of "vertical mutual aid." Will the transfer of economic ministries to the autonomous financing system not give a new boost to this practice and provide legal cover for it?

So five of the six factors cited that promote intensification and increased production efficiency have no common language with the present sector management system. To some extent these factors force their way through the barriers of the departmental system (to the extent to which it benefits from them or yields to pressure), but in most cases they are sacrificed to various "objective" factors and circumstances. The departmental system is clever and shrewd in its own way and it cannot easily be taken in hand. Its vitality is striking. Is it, perhaps, necessary to resolutely demand that departments take account of all production intensification factors, to exercise tougher control, and then -- will success be assured? I think that would be yielding to an illusion. The present system of sector management has in principle outlived its usefulness.

Self-Regulation and Management

Sector management is not, in general, the main, leading element in the system of management of our national economy. But it has gained excessive significance in our life. The main bulk of management apparatus workers are concentrated in sector departments. Whether they want this to happen or not, the hypertrophied role in the management system -- what the CPSU Central Committee November (1979) Plenum described as the "departmental onslaught" -- suits them, and they avoid plunging into the turbulent sea of transformations to sink or swim.

There is nothing wrong with the fact that many workers in the sector apparatus regard the existing situation as reasonable. What is wrong is that any project for improving the economic machinery and the national economic management system is measured against the existing sector management system: Is it compatible with it, and thus with the interests of sector departments, or not? It is the ministries themselves that make a judgment on this in the first instance. And the result of their assessment is predetermined. This is a paradoxical situation: The present system of sector management urgently needs improving -- and it is itself the most powerful force for inertia in this matter and in the development of the management system in general.

The response to this situation should not take the form of trying to affect sector management and the sector apparatus as little as possible in projects for restructuring the management system. The transformation of sector management can only be considered in conjunction with changes in the status of the enterprise. Conversely, changes in the enterprise's status can only be put into practice if there is a simultaneous change in sector management.

Changes in the management system will remain superficial reorganizations if the enterprise's status is left virtually unchanged. The main question is how to tackle the fundamental basis of the national economy -- the production activity of labor collectives. Reforms must be directed not toward making things convenient for the management apparatus -- though practical convenience must also be considered -- but toward creating increasingly favorable conditions for labor collectives, releasing their energy and socially useful initiative, opening up scope for the professional skill of every conscientious working person, and increasing the social activeness of working people.

The 26th CPSU Congress devoted great attention to long-term prospects as well as to the ongoing improvement of management. According to the congress, what is most in accordance with the present stage of the national economy's development is the "widening of the autonomy [samostoyatel'nost] of associations and enterprises and the rights and responsibilities of economic leaders," accompanied by the formation of an "appropriate economic atmosphere and organizational and management relationships" (Footnote 2) (Materials of the 26th CPSU Congress, Moscow 1981, p 51). These words, reaffirmed at the CPSU Central Committee November (1982) Plenum, are profoundly significant.

Widening the autonomy of enterprises is a major, special issue. Let us mention just the most important aspects here.

First and foremost, it is a question of relative autonomy. Naturally, "the version of self-management which tends toward anarchosyndicalism is profoundly alien to us" (Footnote 3) (Yu.V. Andropov, "Karl Marx' Teaching and Some Questions of Communist Building in the USSR," KOMMUNIST, 1983, No. 3, p 19). Ownership by the whole people (by the state) remains immutable, and the supremacy of the state in determining the main conditions of the operation of the production organism is retained. The real widening of enterprises' autonomy takes the form of wider powers in the sphere of planning their own production and economic activity, real, full financial autonomy (including autonomy in "vertical" relationships), and the right to resolve specific questions of production organization at their own level. Experiments conducted in our country involving the operation of a management system based on broad autonomy for labor collectives have yielded positive results. Such a management system is being implemented in other socialist countries, first and foremost Hungary and Bulgaria. It could be claimed that this is a general trend in development arising from the nature of socialist production relations. It is worth dwelling on this matter in more detail.

Production relations are widely regarded as an abstraction applicable only to the most general characterization of economic realities. At the same time the resolution of urgent problems of management of the national economy, including problems of sector management, is associated with an understanding of the controlling role of production relations.

When people speak of enterprises' autonomy, what they have in mind is that within the wider or narrower limits "bequeathed" to it by the state management, an enterprise freely manages its own production and economic activity -- that is, according to its own will, in accordance with its own interpretation of the economic situation, it takes decisions aimed at maximizing the profit and other benefits permitted by law. Does this mean that within these limits the enterprise operates outside all control? No. In the field of freely established economic ties, an enterprise's actions are governed by controls of another type (other than directives). I refer to economic regulators -- the system of economic levers and incentives as an expression of production relations.

State management neither creates nor removes socialist production relations, it only intervenes indirectly, more or less adequately (through legal controls and other means of exercising state authority). If it does this inadequately, then there are greater difficulties involved in putting socialist production relations into practice.

The so-called "shadow economy" arises. There is no need to dramatize its existence in itself, but the trend toward an increase in the scale of the "shadow" economy and the erosion of individual components of the "official" economy by elements of the "shadow" economy is an alarming sign. When this trend appears, it is an indication of a lowering of the level of control of the national economy (Footnote 4) (T.I. Zaslavskaya, "Economic Conduct and Economic Development," EKO, 1980, No. 3).

The specific relationship between the two different types of control depends on historical conditions. Normally this relationship is such that state management operates only where and to the extent that the self-regulation machinery fails to guarantee the interests of society as a whole. As F. Engels noted in his famous article "On Authority," "authority and autonomy are relative, and the sphere of their application changes with different phases of social development," but as a general rule "the social organization of the future will tolerate authority only within the limits inevitably prescribed by production conditions...." (Footnote 5) (K. Marx and F. Engels, Works, Vol 18, pp 304-305). Here the word "authority" [avtoritet] also denotes the socialist state power [vlast].

In the transitional period from capitalism to socialism, and later in the situation of the approach of World War II, the war itself, the postwar restoration, and the "cold" war, an economic machinery became established that was oriented toward the maximum possible degree of statism and centralization of national economic management. At the time, this was largely inevitably prescribed by the economic and sociopolitical conditions in which production was taking place. The self-regulation system was reduced to a minimum. The main props of state management were prescriptive planning based on the principle of apportionment [razverstka], and a large network of narrowly specialized sector departments capable of putting that apportionment into practice. Now the situation has radically changed. Now the order of the day is to extend the autonomy of enterprises, that is, the sphere within which the objective machinery of self-regulation is directly active. This means that "authority" -- including the sector department form of authority -- must retreat to within the reasonable limits inside which it really is "inevitably prescribed by production conditions."

The main avenues of the restructuring of national economic management, intertwined in a single tight knot, are now clear in general terms. The first such avenue is the widening of the autonomy of enterprises and of production (in the broad sense) organizations in general. In essence it is a matter of extending the sphere of self-regulation of production and economic activity to the extent to which it is directly determined by socialist production relations. The second is the corresponding reorientation of state management: restricting interference in enterprises' direct activity and concentrating on strategic issues. The state must be responsible for the general, long-term results of economic activity and must guarantee their conformity with the interests of society as a whole; it must be responsible for those matters which it sees more clearly, which are more easily subjected to its influence, but which elude the self-regulation machinery. The third is to ensure the maximum economic relevance of the means, methods, and forms of state influence on economic life. Authoritative state influence on economic processes and production and economic activity must not lose its sociopolitical content and become purely economic, but it must "rid itself of all attempts to manage the economy by methods which are alien to the nature of the economy" (Footnote 6) (Yu.V. Andropov, "Karl Marx' Teaching and Some Questions of Socialist Building in the USSR," KOMMUNIST, 1983, No. 3, p 13).

It is from these standpoints that the problem of restructuring the sector management system should be examined.

Three Programs for Improving Sector Management -- Which Is Best?

Many options could be proposed for improving the sector management system. Apparently they can be reduced to three possibilities.

The first is stabilization. The essence of this can be expressed in the words: "Improve everything while changing nothing." Interdepartmental coordination is developed within the framework of the existing sector departmental system, which is retained. A number of state committees or "superministries" could be created for groups of similar or interrelated sectors. In any event, everything possible is done to extend direct contractual ties between enterprises, associations, scientific and technical institutions, and other institutions belonging to different departments, and if necessary their efforts are combined through comprehensive intersector targeted programs.

Practice shows that departmental barriers can be overcome only partially by this means. It is clear that coordination links between organizations which preserve their "loyalty" to their own department's interests and their orientation toward departmental indicators cannot be free from great difficulties. While the present system of sector management exists and until such time as a decision to restructure it is adopted, in management practice it is, naturally, only possible to adhere to the standpoint of stabilization and think about utilizing all the reserves inherent in the existing structures.

Within the framework of the stabilization program, the most far-reaching decisions are those adopted in May 1982, first and foremost the CPSU Central Committee and USSR Council of Ministers resolution "On improving the management of agriculture and other sectors of the agro-industrial complex." These decisions combine in a unique way, on the one hand, the creation of a single organ of management of a multisector national economic complex, and on the other, the preservation of narrowly specialized sector departments and their systems. The first of these features is oriented toward the future, the second relates to the present. The decisions of the CPSU Central Committee May (1982) Plenum are an important indication of the insufficient efficiency of the present sector management system.

The second program is one of moderate restructuring. Its essence lies in substantial amalgamation [ukrupneniye] of sector departments. It is quite possible to imagine the national economy (not including the sphere of circulation) being managed not by the present 50 or so sector departments, but, for instance, by 9 -- ministries of fuel and energy industry; metallurgy; machine building; light, timber, and chemical industry; construction; municipal services and communications; agriculture and food industry; transport; and a state committee for defense production.

It goes without saying that this program could only be implemented given a considerable widening of the autonomy of enterprises and associations and thus a sharp reduction in the volume of unnecessary centralized operational management of them. So what is suggested is not the kind of amalgamation whereby a single ministry would be formed to replace several, but where that ministry's system would include the same number of main administrations which would manage their own "projects" on the same old principles; the suggestion is rather more serious than that.

The third program is one of radical restructuring. A possible version of this could appear as follows. State management of the national economy is concentrated as much as possible. The management of material production is concentrated in four departments: the ministries of the national economy (only a rough title); municipal services and communications; and transport; and the state committee for defense production.

Obviously in this case the amalgamation of departments managing the sphere of circulation and the sociocultural sphere will also become inevitable. It is also clear that the creation of a ministry of the national economy will entail restructuring the functions of the Gosplan so that it concentrates on problems of general planning of the country's social and economic development. This be borne in mind in evaluating the program for radical restructuring: After all, it is important to know in what general structural context it is proposed that the ministry of the national economy and the other sector departments should operate. The key measure in this program, however, is the creation of the ministry of the national economy (or to give it another name -- also not completely accurate -- the ministry of material production).

It is suggested that the USSR ministry of the national economy will manage the material production under its jurisdiction as a single integrated sector within the system of division of social labor. As an organ of state -- that is, sociopolitical -- management, it will pursue the goals of ensuring the maximum social usefulness of production. It will not be excessively cumbersome, because, on the one hand, the extension of enterprises' autonomy will lead to a sharp reduction in the volume of work in operational management of the enterprises on the part of the state, and on the other hand, the main bulk of this kind of work, insofar as it will continue to be necessary, will be taken on by republican and local organs of the ministry. Real potential will at last emerge for concentrating the centralized state management on strategies for economic development.

The ministry of the national economy will have the status of a union-republican department. The republican ministries of the same name and the national economy administration of the local soviets (which will be under dual jurisdiction -- vertical and horizontal) ensure the territorial integration of material production (the "integration effect!"), having under their direct jurisdiction all the enterprises located in the territory in question (with very rare exceptions). This system will make it possible to make use of the germ of rationality which was present in the system of soviets of the national economy [sovnarkhoz] in 1957-1964, without reviving its serious shortcomings in connection with the weakening of centralization of sector management.

Which of the three programs mentioned promises the best organization of sector management? The reader will perhaps defer drawing his own conclusions until he has studied the next section of the article, which discusses the functions of the suggested ministry of the national economy and its organs. But here (by way of "food for thought") is the answer that was received in one poll of experts.

In May 1982 a Georgian Communist Party Central Committee Plenum was held to discuss the question of accelerating scientific and technical progress in the republic's national economy. On the eve of the plenum, a poll of its 185 participants was carried out. One in six of those polled was a member or candidate member of the Central Committee, the others were people invited to take part in the plenum. Slightly over half of those polled were workers on party and state organs, leaders of major enterprises, and other practical workers, while slightly less than half were leaders of scientific institutions and important scientists. The questionnaire included this question, among others: how can departmental barriers in the path of scientific and technical progress be overcome? The possible answers mentioned and briefly described three possibilities -- those mentioned above.

Thirty-seven people (19.5 percent) refrained from making the difficult choice between the alternatives, 67 people (36 percent) chose the stabilization program, 52 (28 percent) went for the moderate restructuring program and 30 (16 percent) preferred the radical restructuring program [figures and percentages as published]. The distribution of replies in the groups of practical and scientific personnel was roughly the same (Footnote 7) (T.M. Dzhaferli, Sh.L. Kistauri, B.P. Kurashvili, and V.P. Rassokhin. "Some aspects of the Acceleration of Scientific and Technical Progress," SOTSIOLOGICHESKIYE ISSLEDOVANIYA, 1983, No 2, pp 61-62).

What do these figures show? First, that hopes of reform outweigh the feeling of certainty that stabilization gives. A relative majority of those polled (44 percent against 36) and an absolute majority of those who answered the question (easily calculated to be 55 percent) favored the restructuring of sector management -- restructuring, as stipulated in the questionnaire, which would be part and parcel of the widening of enterprises' autonomy. This result is all the more indicative in view of the fact that during the preparations for the plenum periodicals only discussed the measures which could be adopted within the framework of the existing management system, there having been no consideration of the possibility of restructuring it. Second, the replies show less readiness for a radical restructuring. Although it is true that the fact that it was favored by one in six of those polled and by one in five of those who replied can be seen as substantial support.

Moderate restructuring has certain obvious advantages over radical: less demolition, a gradual transition to the new management system, the possibility of an easier return to tougher state management if need be. But moderate restructuring as a half-and-half approach has serious shortcomings, economic ministries will endeavor to manage "their own" enterprises in accordance with the old command principles, that is those we have at present (a single national economy ministry would not be able to do this). The problem of managing regional (territorial) complexes would not be satisfactorily solved either. Most likely, in time, one would have to switch to the radical concentration of sector management -- this would mean yet another restructuring with inevitable flaws.

Moderate restructuring is not bad in existing conditions, but it is not the best step in the development of sector management. The best step in our view is radical restructuring. To appreciate the nature of it you have to have a general picture of the content of the hypothetical USSR national economy ministry's activity.

[Annex continues on back pages of report]

The Functions of the National Economy Ministry and Its Organs

Let us assume the program for the radical restructuring of sector management has been adopted and the national economy ministry and its organs have been set up. What should its functions be, given that the reform will radically alter the status of the enterprise as the basic element of the production and economic system.

Let us begin with the hub of management -- PLANNING. It is here that the substantial changes should begin. In fact, the widening of enterprises' autonomy presupposes authorizing them to autonomously plan their production and economic activity, although this in no way does away with state planning.

Hungary provides an example of this kind of planning. According to the 1972 Law on National Economic Planning "the Hungarian economy is a planned economy based on socialist production relations." The state adopts long-term, medium-term (5-year), and annual (current) plans. The conformity of the production and economic activity of enterprises and economic organizations to state plans in general is "not guaranteed by apportionment." The law goes on to say: "The activity of economic organizations must accord with the aims laid down in the national economic plan. An economic organization's plan is laid down by the director after listening to working people's views; in the case of cooperatives it is laid down by the general assembly." It also says that when they draw up their plans economic organizations take their contract connections into account." [quotemarks as published] A state organ has the right to demand of a subordinate economic organization that it act in accordance with the overall aims of the state plan, but it has no right to pass down specific, obligatory plan targets. It influences enterprises by using the means of economic regulation stipulated by the 1977 law on state enterprises: the right to determine an enterprise's sphere of activity when it is founded and supervisory powers as well. Prescriptive planning only comes into play in special cases. A planned economy with a prescriptive system can be introduced to control economic processes in all national economic spheres under a state of emergency and other special economic measures (military economy) can be introduced for defense purposes (Footnote 8) (Hungarian People's Republic. Constitution and Legislation. Moscow, 1982, Progress Publishing House).

Logically and taking this experience into account, the planning function can be performed in the USSR national economy ministry's system in the following way. The national economy ministry elaborates draft long, medium, and short-term (annual) plans for subordinate sectors of material production, they are approved as part of state plans for the economic and social development of the USSR and are allocated to national economy ministry republican and local organs. Enterprises adopt their plans independently. National economy ministry organs use various methods of ensuring that enterprise plans accord with state plans. These organs determine the enterprises' main spheres of activity for the given planned period (this means that a particular product or group of products will constitute a particular proportion of net output, and no less than that). Having received, in the preplan period, enterprises' draft plans drawn up on the basis of their order books, the national economy ministry organ recommends, on the basis of the overall situation (which it should know better than the enterprises; they, in turn, should have a better idea of the dynamics of their customers' specific needs), certain amendments to the drafts. Finally (and chiefly), the national economy ministry organ tells the enterprises what kind of output it will encourage and on what terms, on the basis of investments, credits, tax concessions, and other economic means.

Having dispensed with the need to plan absolutely everything, organs involved in state management of the national economy will be able to plan the solution of large-scale national economic problems on a selective basis, that is, make full use of the method of targeted program planning.

The drawing up of all-union, republican, and local targeted programs will be a very important form of state planning.

The planning process will involve the complex interaction of three elements -- the specific producers, the specific consumers, and the national economy ministry organs representing the interests of society as a whole and territorial communities. The drawing together and coordination of the interests of these elements will ensure that the plans are realistic and balanced and will ensure ultimately the fullest satisfaction of public needs in the given circumstances. It is the attainment of this degree of satisfaction and not various formal indicators which will be the criterion for assessing the work of the national economy ministry and its organs.

The essential prerequisites for effective planning will be created by the maximum centralized performance by the ministry of the national economy and its organs of the FUNCTION OF INVESTIGATING THE ECONOMIC SITUATION, including accounting, creating and operating a unified information system and subsystems, and assessing the current state and forecasting the directions of the development of production forces, scientific and technical progress, and the domestic and world market. The initial data for an adequate picture of the movement of material production will be obtained by national economy ministry organs, in particular on the basis of the compulsory registration of enterprises' plans.

The ministry of the national economy will have the widest horizons for practical investigation of economic life and different economic situations. The encompassing of the general and indirect consequences of millions of production and economic actions directly reflecting the dynamics of social needs and exposure on that basis, of the underlying trends of national economic development will bring together the state power authority of the ministry of the national economy and its organs and the authority of full, authentic knowledge. This will be the best possible way of helping improve the level of control in the basic sphere of social life.

Naturally, the ORGANIZATION OF THE PRODUCTION APPARATUS, geared to the actual formation of a unified national economic complex for the country as a whole and regionally at all levels -- from administrative rayon to economic region covering several republics or oblasts -- will play a very important part in the system of functions performed by the ministry of the national economy and its republican and local organs.

The creation of a ministry of the national economy, unlike the moderate amalgamation of sector departments, not to mention the organization of different interdepartmental commissions within the framework of a stabilization program, is, we believe, the only proper way of cleansing material production of the "plague of departmental parochialism" (Footnote 9) (M. Mikhaylov. "Concerning Departmental Parochialism," KOMMUNIST, 1981, No 8, p 105) at all levels of management, beginning -- and this is most important -- at the enterprise level.

In the case of apatite extraction, which we have already discussed, when you have moderate amalgamation you cannot expect an enterprise to be able to freely combine its main activity, which is concerned with chemical production, with the organization of nonferrous metallurgy production units. Or, in another case, combining steel casting with the production of construction materials from slag. Or the extraction of oil shale with the use of gangue in road building. The combinations can be very unexpected and all or nearly all of them will be "native" to the national economy ministry's system.

Similarly, department barriers will be cleared from the path of coproduction by groups of enterprises.

Cooperation ties (preferably though not necessarily within the framework of a particular region), in particular where the formation of associations for specific functions is involved, will be established by enterprises at their own discretion and national economy ministry organs will contribute organizationally and economically to the establishment of ties ensuring the solution of priority tasks.

As far as they are able on a regional scale and certainly on a countrywide scale, the national economy ministry and its organs will have to prevent individual enterprises from having a monopoly of a particular market of products destined for production or social consumption and prevent individual enterprises from taking advantage of the fact that goods they produce are scarce. These tasks will be solved by, in particular, an appropriate investment policy. The creation of new enterprises will basically remain the prerogative of the national economy ministry and its organs.

It is very important to talk ABOUT SCIENTIFIC AND TECHNICAL POLICY. It is part and parcel of sector production specialization and the implementation of it will preserve -- in a fundamentally different form from the present one -- the sector-based structure of the managerial apparatus. Sector management, with specialization by national economic sector, will involve specific, uniform production units at all enterprises, not groups of related enterprises (a sufficiently "pure" sector cannot be formed on the basis of enterprises because they are generally multisectorial). The aim of this management is the scientific, technical, and social (in the sense of the conditions and creative content of labor) progress of the relevant production units.

The USSR ministry of the national economy will have direct charge of a network of scientific research and planning and design institutions narrowly or broadly specializing in a product or production technique and they will help the formation and implementation of scientific and technical programs geared to the development and eventual production of new products, the technical and technological retooling of relevant production units and, ultimately, the improvement of labor productivity and maximum satisfaction of society's needs in terms of a particular sector's products. Nothing else is needed, it seems to us, in this sphere of management.

The function of the national economy ministry and its organs which involves the HANDLING OF MATERIAL, TECHNICAL, AND FINANCIAL RESOURCES will be exceedingly crucial and complex. It is this function that will ensure the implementation of economic methods of management (state-power, "administrative" in form, economic in content).

At the moment the use of the national [obshchenarodnyy] (state) property in production and circulation is regulated by the law of "operational management" (not an entirely straightforward term, unfortunately). According to Article 21 of the Principles of Civil Legislation of the USSR and Union Republics (this article is reproduced in Article 94 of the RSFSR Civil Code and in the Civil Codes of the other union republics), "state property allocated to state organizations is under the operational management of those organizations which are implementing -- within the limits determined by the law and in accordance with the aims of their activity, plan targets, and the function of the property -- the rights of ownership, use, and disposal of the property." The hypothetical changes in the planning system will require a new version of this article although essentially it will remain unchanged.

The ministry of the national economy and its organs will have to proceed on the basis not of unconditional (within the limits laid down by the law) but of broad property autonomy for enterprises and other "state organizations" which will be given

"operational management" of part of the common fund of state property. One new aspect, as has been proposed on a number of occasions, should be the introduction of an economically valid payment for practically all the state property given to enterprises, including land and mineral raw material stocks, in order to prevent the mismanagement of "free" property.

A very substantial part of the common fund of state property will be concentrated in the hands of the national economy ministry. The non-gratis placing of state property at the disposal of enterprises, economic incentives for their production and economic activity in decisive areas, clever handling of spare funds throughout the national economy, and the provision of resources for targeted programs -- all this will constitute the basic ingredients of the state-power actions of the national economy ministry and its organs.

Making state management of the National economy an economic process will also effect the national economy ministry's performance of the FUNCTION OF MONITORING THE DEGREE OF LABOR AND CONSUMPTION. The aim in this sphere is to establish a system of distribution ratios arising naturally out of a situation where enterprises' production and economic activity actually is fully financially autonomous. V.I. Lenin's well-known ideas on financial autonomy and distribution according to labor await consistent implementation.

The state will lay down only the minimum wage level and the size of grade increments, while the actual wage level will be determined by the enterprises themselves and will depend on production efficiency and on labor productivity and the working person's labor contribution. This presupposes the possibility of substantial differences in pay for the same work, this having an incentive effect, and differentiation between enterprises and between working people which comes under the heading of labor competition. The size of payments into social consumption and production development funds should also strictly depend on production efficiency -- this directly or indirectly establishes the level and structure of consumption of material and spiritual benefits.

As the full representative of the owner (society organized into a socialist state) the national economy ministry and its organs will collaborate with labor collectives in implementing CADRE POLICY, above all in the appointment of enterprise leaders.

In the new management conditions the labor collective will have a vital interest in ensuring that production efficiency is real and not just for show and, therefore, that skilled and honest personnel are in charge. The law on labor collectives adopted in June 1983 recognizes the need to a degree, envisaging as it does the enhancement of labor collectives' role in appointing leaders and monitoring their activity. In time the election of enterprise leaders will probably be introduced (as is the case at the team level). But, at the same time, one must preserve the decisive role of national economy ministry organs, specifically their approval of leaders elected by the labor collective.

THE LEGAL ESTABLISHMENT AND FORMULATION OF SOCIALIST PRODUCTION RELATIONS is basically a matter for the representative organs of the state which adopt laws. But the ministry of the national economy, as an organ of state administration, will also have to perform a significant norm-creating function -- elaborating draft laws and government resolutions and also independently adopting departmental normative acts.

Clearly, it will be primarily a matter of the concrete elaboration of two associated legal institutions on the basis of the present legal institution of "operational management" -- the law of production and economic disposal and the law of state-power disposal of property in state hands. Lawyers are already talking about the need to elaborate these two institutions (under slightly different names, but this is not important). This question becomes exceedingly relevant in connection with the restructuring of the management system on the basis of widening enterprises' autonomy. It is necessary to ensure that the law of national [obshchenarodnyy] (state) ownership remains intact and to provide scope for its utilization, above all the chance to manipulate property in the course of production and economic activity.

Much work will have to be done to regulate the system of state planning and the system of economic contract ties (including those between enterprises and state organs) and in other areas. Norm-creating powers can be granted to the national economy ministry in the reasonable certainty that the ministry, unlike the current sector departments, especially financially autonomous ones, will not feel entitled to safeguard departmental interests to the detriment of national [obshchenarodnyy] interests.

This certainty, based on the hypothetical objective position of the ministry of the national economy in the system of economic ties, a position which will not give it a motive for "vertical mutual aid" with subordinate enterprises, extends also to the function of SETTLING DISPUTES (between manufacturers and consumers, between enterprises and working people and so on). The scale on which the departments managing the national economy perform this function remains very large despite the existence of a nondepartmental system for settling disputes (state arbitration, the courts). The significance of its proper performance, especially at the initial stage when the new management system is being introduced, is obvious.

This necessarily incomplete survey of the functions which would be performed by the hypothetical national economy ministry and its organs (which number around 170 at republican and oblast level) enables one to conclude that this department will be perfectly capable of managing the greater part of material production -- given a judicious sharing of managerial work with enterprises and their associations. And if a single ministry can cope with the task there is no need to have a larger number of ministries.

The June (1983) Plenum of the CPSU Central Committee talked of the program task of reducing and simplifying the managerial apparatus. The solution would emerge naturally from a more sensible management system.

Is An Experiment Necessary?

Can the proposed sector management reform be verified experimentally? Theoretically, yes. For instance, you create ministries in two or three union republics and national economy administrations in several oblasts, these organs are given charge of all or nearly all the enterprises in their areas, the production and economic autonomy of the enterprises is widened, while the present sector departments have charge (insofar as this remains necessary) of their "own" enterprises via republican and local organs which do not have a synonymous equivalent at union level. On a theoretical level this can be done. But it is easy to see how difficult it would be to translate the instructions of the multitude of superior ministries into rational managerial decrees addressed to enterprises. And, which virtually clinches it, to what extent existing sector departments will be committed to making it an authentic and successful experiment.

Without ruling out, however, the possibility of an experiment (if special steps are taken to guard against obstacles), obviously one must concentrate on elaborating a detailed and thorough plan for the restructuring of sector management as an integral part of the plan for the overall reform of the national economic management systems. The use of experimental models and consultations with experts in the course of planning can give the conclusions greater clarity and authenticity than actual experiments when some of the requisite favorable conditions are lacking. It should also be borne in mind that actual social experiments sometimes postpone the pressing solution of problems and on occasions people deliberately use them as a means of shelving projects, a means "updated in the spirit of scientific and technical progress."

Furthermore, people who display the seriousness of their approach to the solution of pressing problems by referring to the need for an experiment sometimes forget about the "gifts of history," modern history at that -- the experience of the other socialist countries and this experience is worth a multitude of experiments.

It is often said that these countries are small compared with the USSR and that their experience is therefore not a guide. But I believe that this is particularly useful as a guide. If excessive statism and centralization of management get in the way of production intensification in small countries in which economic ties are easier to encompass, then in a large country this style of management is even less suitable. A large-scale national economy and its unamenability to tight centralized state management is a further argument in favor of the proposed restructuring. The chief argument is the need to give powerful socioeconomic factors, the only factors capable of playing a decisive role in production intensification and in the sharp improvement of production efficiency, room to express themselves.

In his speech at the meeting with party veterans Yu.V. Andropov said that the tasks set by the recent party congresses in the sphere of economic development are "still far from being fulfilled." "Evidently, a factor in this was our lack of vigor in searching for ways of solving new tasks, our frequent use of half-measures, and our inability to overcome the accumulated inertia quickly enough." It does not follow from this, of course, that any solution which is not a half-measure is automatically correct, but it does mean that a radical solution must be sought.

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~~CONFIDENTIAL~~ SECTION 01 OF 03 MOSCOW 15947

E.O. 12356: DECL: OADR

TAGS: ECON, UR

SUBJECT: ANDROPOV'S SPEECH TO THE CENTRAL COMMITTEE
- PLENUM: ECONOMIC POLICY WILL MARK TIME,
- WITH DISCIPLINE

1. ~~CONFIDENTIAL~~ - ENTIRE TEXT.

2. SUMMARY. WHILE ANDROPOV'S FAILURE TO DELIVER HIS SPEECH IN PERSON HAS OVERSHADOWED ITS CONTENTS, IT DOES PROVIDE IMPORTANT GUIDANCE ON THE ECONOMY TO SOVIET MANAGERS, BUREAUCRATS, PLANNERS AND ACADEMIC ECONOMISTS. THE SPEECH OFFERED NO MAJOR NEW POLICY INITIATIVES BUT SERVED PRIMARILY TO CONFIRM THE BASIC CRITICISMS AND APPROACHES WHICH HAVE EMERGED OVER THE PAST YEAR. ANDROPOV'S MAIN THEME IS THAT MUCH HAS BEEN DONE TO IMPROVE THE ECONOMIC SITUATION, BUT MANY PROBLEMS REMAIN: WORKERS AND MACHINERY ARE USED INEFFICIENTLY; LOOPHOLES PROTECT ENTERPRISES WHICH FAIL TO FULFILL CONTRACTS; PLANNING BETWEEN SECTORS IS OFTEN UNCOORDINATED; CAPITAL CONSTRUCTION PROJECTS ARE BEHIND SCHEDULE; AND LOW QUALITY CONSUMER GOODS PILE UP IN WAREHOUSES.

3. THESE PROBLEMS ARE TO BE SOLVED IN THE NEAR TERM BY USE OF THE UNTAPPED "RESERVES" OF LABOR AND EQUIPMENT IN THE PRESENT ECONOMIC SYSTEM, NOT BY REFORMS. ANDROPOV REPEATS HIS FAMILIAR CALL FOR MORE DISCIPLINE, BETTER ORGANIZATION AND BETTER CADRES. IN THE LONGER TERM, ANDROPOV CITES THE FIVE MINISTRY ECONOMIC EXPERIMENT AND A CONSUMER GOODS PROGRAM, NOW UNDER STUDY, AS HELPING TO IMPROVE THE MANAGEMENT OF THE ECONOMY. IN ADDITION, HE SAYS "THE TIME IS RIPE" FOR A PARTY PROGRAM TO ADDRESS THE OVERALL IMPROVEMENT OF THE MANAGEMENT SYSTEM, BUT HE OFFERS ONLY VAGUE IDEAS ABOUT ITS CONTENT. ANDROPOV'S SPEECH SUGGESTS THAT 1984 WILL BE A YEAR OF

MARKING TIME, RATHER THAN MAJOR MOVES AHEAD IN MAKING STRUCTURAL CHANGES IN THE SOVIET ECONOMY. END SUMMARY.

4. AS IS BEING REPORTED SEPTEL, GENERAL SECRETARY ANDROPOV'S ABSENCE FROM THE CENTRAL COMMITTEE'S PLENARY SESSION ON DECEMBER 26 HAS OVERSHADOWED THE SPEECH WHICH WAS DELIVERED ON HIS BEHALF TO THE DELEGATES. WE ASSUME THAT INTERESTED WASHINGTON READERS WILL BE ABLE TO REFER TO THE FULL ENGLISH TEXT OF THE SPEECH (WHICH WAS MADE AVAILABLE BY TASS), AND, THEREFORE, WE WILL LIMIT OURSELVES TO ANALYSIS OF THE HIGH POINTS OF THE SPEECH.

SETTING THE AGENDA FOR 1984

5) IN ADDRESSING THE PLENUM, AS IT CONSIDERS THE 1984 PLAN, ANDROPOV'S MAIN THEME IS THAT WHILE THE ECONOMY HAS IMPROVED IN 1983, MUCH REMAINS TO BE DONE. FOLLOWING THE PATTERN OF HIS JUNE PLENUM SPEECH, HE GIVES FIRST PLACE TO THE NEED TO INCREASE PRODUCTIVITY, PRIMARILY THROUGH BETTER WORKER AND MANAGERIAL DISCIPLINE. ALSO HIGH ON THE AGENDA ARE OTHER AREAS WHICH READ LIKE A CHECKLIST OF TOPICS WHICH HAVE BEEN THE SUBJECT OF POLITBURO STATEMENTS AND CENTRAL COMMITTEE RESOLUTIONS OVER THE PAST TWELVE MONTHS: TIGHTER ENFORCEMENT OF CONTRACTS; CLOSER COORDINATION OF PLANS BETWEEN INDUSTRIAL BRANCHES; MORE RAPID INTRODUCTION OF NEW TECHNOLOGIES; BETTER USE OF THE TRANSPORT SYSTEM; MORE TIMELY COMPLETION OF CAPITAL CONSTRUCTION; AND HIGHER QUALITY PRODUCTION OF CONSUMER GOODS. ANDROPOV'S COMMENTS ON THESE ISSUES BREAK NO NEW GROUND, BUT INSTEAD GIVE THE GENERAL SECRETARY'S PERSONAL PUBLIC BLESSING TO POSITIONS TAKEN IN THE NAME OF THE CENTRAL COMMITTEE OR POLITBURO.

6. THE NEED FOR IMPROVED CONSUMER GOODS OCCUPIES A PARTICULARLY IMPORTANT POINT IN ANDROPOV'S REMARKS. TO DRAMATIZE THE PROBLEM OF SHODDY CONSUMER GOODS, HE NOTES THAT TRADE ORGANIZATIONS HAVE REFUSED TO ACCEPT FOR SALE IN 1984 ONE-HALF MILLION TELEVISIONS, OVER 100,000 RADIOS, ALMOST 250,000 CAMERAS, ONE-AND-ONE-HALF MILLION WATCHES BT

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E.O. 12356: DECL: OADR

TAGS: ECON, UR

SUBJECT: ANDROPOV'S SPEECH TO THE CENTRAL COMMITTEE
AND CLOCKS, AS WELL AS LARGE QUANTITIES OF OTHER PRODUCTS.
ANDROPOV LABELS THE WASTE OF RESOURCES ON PRODUCING THESE
GOODS "INTOLERABLE" AND CALLS FOR PRODUCERS TO RESPOND
TO THE CONSUMERS' NEEDS. AS A LONG-TERM SOLUTION, HE
NOTES THAT, AS WAS FIRST ANNOUNCED IN THE POLITBURO NOTES
OF DECEMBER 24, A COMPREHENSIVE PROGRAM FOR THE PRODUCTION
OF CONSUMER GOODS AND THE DEVELOPMENT OF SERVICES IS
BEING PREPARED. IN SPITE OF ANDROPOV'S CONCERN FOR THE
CONSUMER, HE OFFERS NO HINT OF INCREASED RESOURCES BEING
DEVOTED TO THIS SECTOR.

7. AN ITEM OF INCREASED IMPORTANCE ON THE ECONOMIC AGENDA
IS THE ENVIRONMENT. ANDROPOV, WHO HAS DEVOTED LITTLE PUBLIC
ATTENTION TO THIS SUBJECT IN THE PAST, DESCRIBES PRESERVA-
TION OF THE ENVIRONMENT AS "A TASK OF MAJOR ECONOMIC AND
SOCIAL IMPORTANCE." WHETHER IN REACTION TO THE RECENT
ENVIRONMENTAL DISASTER IN THE DNESTER RIVER, OR IMPRESSED
BY THE CUMULATIVE WASTE AND GRIME OF SOVIET INDUSTRY,
ANDROPOV STATES THAT THE PROBLEM IS "ACUTE," AND THAT
THE PAROCHIAL APPROACH OF SOME AGENCIES AND DEPARTMENTS
MUST BE OVERCOME. WHILE THE FACT THAT ANDROPOV EVEN
MENTIONED THE ENVIRONMENT MAY BE HEARTENING TO SOME
SOVIETS, HIS COMMENTS ARE TIGHTLY LINKED TO SAVING
NATURAL RESOURCES, AND OFFER NO INSIGHT INTO HOW THIS
OBJECTIVE WILL TRADE OFF WITH HIS HEAVY EMPHASIS ON PRO-
DUCTIVITY IN INDUSTRY AND AGRICULTURE.

RESOLVING THE ECONOMY'S PROBLEMS

8. ARRAYED AGAINST THE IMPRESSIVE LIST OF CONTINUING
ECONOMIC PROBLEMS IS THE SHORT AND NOW FAMILIAR ANDROPOV
ANSWER: MORE DISCIPLINE, BETTER ORGANIZATION, AND BETTER

CADRES. THE RELATIVELY SUCCESSFUL ECONOMIC PERFORMANCE
IN 1983 MERELY CONFIRMS THE CORRECTNESS OF THIS APPROACH.
ANDROPOV MAKES CLEAR HIS BELIEF THAT CONSIDERABLE ROOM
FOR IMPROVED ECONOMIC PERFORMANCE REMAINS WITHIN THE
EXISTING SYSTEM BY MAKING BETTER USE OF EXISTING RAW
MATERIALS, MACHINERY, AND WORKERS. IN THE CASE OF THE
KEY TRANSPORT AND CONSTRUCTION SECTORS, HIS APPROACH IS
SIMPLY TO ORDER IMPROVED PERFORMANCE WITHOUT ANY DIRECTION
ON HOW IT IS TO BE ACHIEVED. TO IMPLEMENT THIS POLICY OF
IMPROVEMENT THROUGH EXHORTATION, IN THE OVERALL ECONOMY,
ANDROPOV CALLS FOR A COMMITMENT IN 1984 TO EXCEED THE
PLANNED PRODUCTIVITY GROWTH RATE BY ONE PERCENT AND TO CUT
PRODUCTION COSTS BY AN ADDITIONAL ONE-HALF PERCENT ABOVE
PLAN.

9. ANDROPOV DOES NOT, HOWEVER, ALTOGETHER IGNORE THE
QUESTION OF LONGER-TERM "STRATEGIC" CHANGES. HE NOTES
THAT ELEMENTS BEING TESTED IN THE ECONOMIC EXPERIMENT
IN FIVE INDUSTRIAL MINISTRIES WILL SERVE AS A MODEL
FOR THE ECONOMY AS A WHOLE IN THE TWELFTH FIVE-YEAR
PLAN (1986-1990). HE ALSO COMMENTS THAT THE "TIME IS
RIPE" TO WORK OUT A PROGRAM FOR "PERFECTION OF THE
ENTIRE MANAGEMENT MECHANISM." THE PROGRAM, ANDROPOV
STATES, SHOULD PROVIDE FOR: (1) PERFECTING MANAGEMENT
AT ALL LEVELS INCLUDING CLEARLY DEFINING THE FUNCTIONS
OF ALL GROUPS; (2) PERFECTING THE PLANNING SYSTEM;
(3) MAKING ECONOMIC "LEVERS," INCLUDING THE PRICE AND
THE FINANCIAL SYSTEMS, MORE EFFICIENT. ALTHOUGH
ANDROPOV STATES THAT THIS COMPREHENSIVE STUDY OF THE
ISSUES SHOULD BE AN "INTEGRAL PART" OF THE NEW PARTY
PROGRAM, THE VAGUENESS OF HIS IDEAS HARDLY SUGGESTS
THAT HE HAS IN MIND CONCRETE PROPOSALS FOR CHANGES.
WE STILL HAVE NO EVIDENCE THAT THE ECONOMIC DEPARTMENT
OF THE CENTRAL COMMITTEE STAFF, REPORTEDLY CHARGED
WITH PRODUCING SUCH STRATEGIC ECONOMIC PLANS, HAS FOUND
ANY NEW SOLUTIONS.

LOOKING AHEAD

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E. O. 12356: DECL: OADR
TAGS: ECON, UR
SUBJECT: ANDROPOV'S SPEECH TO THE CENTRAL COMMITTEE

10. THE GENERAL SECRETARY'S SPEECH AT A CENTRAL COMMITTEE PLENUM NOT ONLY PROVIDES BASIC POLITICAL GUIDANCE TO PARTY OFFICIALS AND ACTIVISTS BUT ALSO SERVES TO PUT PLANNERS, ENTERPRISE MANAGERS, AND BUREAUCRATS ON NOTICE AS TO WHAT TO EXPECT AND WHAT IS EXPECTED FROM THEM. ANDROPOV'S SPEECH TO THE PLENUM IS AN INDICATION TO THEM THAT IN 1984 (1) THEY WILL BE EXPECTED TO DO MORE WITH THE SAME AMOUNT OF RESOURCES, AND (2) THEY CAN EXPECT THAT THE ECONOMIC RULES OF THE GAME WILL NOT CHANGE GREATLY. ANDROPOV HAS AGAIN CLEARLY PINPOINTED MANY OF THE PROBLEMS OF THE ECONOMY, BUT HE HAS OFFERED LITTLE GUIDANCE IN HOW THEY ARE TO SOLVE THOSE PROBLEMS.

11. VIEWING THE SOVIET ECONOMY FROM MOSCOW, THERE ARE HUGE RESERVES OF WASTE AND INEFFICIENCY TO BE TAPPED, EVEN AFTER THE TIGHTENING OF DISCIPLINE THIS PAST YEAR, WHICH COULD YIELD ONE-TIME INCREMENTS OF NATIONAL INCOME. BUT CHANGES IN THE SYSTEM WHICH WOULD GENERATE SELF-SUSTAINING GROWTH WILL NOW BE HARDER THAN EVER TO IMPLEMENT IN TIME FOR THE 1986-90 PLAN. ALTHOUGH THE SPEECH IS NOT ITSELF A STEP BACKWARD, IT SUGGESTS THAT MORE TIME WILL BE LOST BEFORE THE LEADERSHIP INITIATES DECISIVE CHANGE, AND CASTS MORE DOUBT ON HOW THE RESULTS OF THE FIVE-MINISTRY EXPERIMENT CAN BE ADOPTED BY THE REST OF THE ECONOMY IN THE NEXT FIVE-YEAR PLAN. HARTMAN
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~~CONFIDENTIAL~~ SECTION 01 OF 07 MOSCOW 16110

E.O. 12356: DECL: OADR
TAGS: ECON, UR
SUBJECT: THE 1984 ECONOMIC PLAN: CONTINUITY AND CHANGE
- IN THE FIRST ANDROPOV PLAN
REFS: (A) MOSCOW 16060 (NOTAL)
- (B) MOSCOW 15947
- (C) MOSCOW 16075 (NOTAL)

1. ~~CONFIDENTIAL~~ - ENTIRE TEXT.

2. SUMMARY. THE 1984 ECONOMIC PLAN, THE FIRST ANNUAL PLAN PREPARED ENTIRELY UNDER ANDROPOV'S LEADERSHIP, FOLLOWS THE 1983 PLAN BY CALLING FOR GENERALLY LOWER TARGETS THAN ARE PRESCRIBED IN THE FIVE-YEAR PLAN. THE 1984 TARGET OF A 3.8 PERCENT INCREASE IN INDUSTRIAL PRODUCTION SUGGESTS THE SOVIETS MAY BE LEARNING TO LIVE WITH SLOWER AND - THEY HOPE --MORE BALANCED GROWTH. TO FINANCE THIS GROWTH, THE 1984 PLAN BREAKS WITH ITS PREDECESSORS IN THIS FIVE-YEAR PLAN PERIOD 1981-85 AND CALLS FOR CAPITAL INVESTMENT TO INCREASE AT A FASTER RATE THAN NATIONAL INCOME. THE PREVIOUS PLANS' EMPHASIS ON COMPLETING UNFINISHED CAPITAL CONSTRUCTION, RE-EQUIPPING EXISTING FACTORIES, AND MAKING USE OF "RESERVES" IN THE ECONOMY, AS OPPOSED TO NEW FUNDS, REMAINS.

3. IN LOOKING AT INDIVIDUAL SECTORS, THERE ARE THE FAMILIAR CLAIMANTS FOR RESOURCES. INVESTMENT IN ENERGY WILL INCREASE ELEVEN PERCENT, BUT WE CANNOT SAY WHETHER THAT WILL BE ENOUGH TO ENSURE FULFILLMENT OF THE PLAN TARGET FOR OIL PRODUCTION OF 624 MILLION METRIC TONS. THE AGRO-INDUSTRIAL COMPLEX WILL MAINTAIN ITS 33 PERCENT SHARE OF INVESTMENT, WHILE AGRICULTURE ITSELF WILL

RECEIVE SLIGHTLY LESS. ALTHOUGH IT IS NOT CLEAR WHAT ADDITIONAL RESOURCES ARE INVOLVED, THE OUTPUT OF TWO KEY INDUSTRIAL BOTTLENECKS -- MACHINEBUILDING AND CHEMICALS -- IS TARGETTED FOR SIZEABLE INCREASES. TRANSPORT, ANOTHER BOTTLENECK, APPARENTLY WILL HAVE TO DO WITHOUT MAJOR NEW FINANCING. ENVIRONMENTAL AND NATURAL RESOURCE CONSERVATION IS GIVEN MODEST FUNDS, AND FOREIGN ECONOMIC POLICY APPEARS UNCHANGED. FINALLY, THE 1984 PLAN OFFERS SOME HOPE OF AN INCREASE IN THE OUTPUT OF CONSUMER GOODS, A HIGHLY VISIBLE ANDROPOV PROMISE. END SUMMARY.

THE FIRST "ANDROPOV PLAN"

4. WITH ITS APPROVAL BY THE SUPREME SOVIET ON DECEMBER 29, THE 1984 ECONOMIC PLAN (HIGHLIGHTS OF WHICH WERE REPORTED REF A AND B) IS NOW LAW. AS SUCH IT CONTAINS THE BASIC POLICY DECISIONS WHICH WILL GUIDE THE SOVIET ECONOMY. WHILE PARTY RESOLUTIONS AND SPEECHES ON THE ECONOMY MAY BE IMPORTANT, IT IS THE PLAN'S ALLOCATION OF RESOURCES AND PRODUCTION TARGETS WHICH DIRECTLY AFFECT THE DAILY LIFE OF EVERY SOVIET WORKER FROM COTTON PICKERS IN KIRGHIZIA TO MACHINISTS IN MURMANSK. ADJUSTMENTS IN THE PLAN ARE POSSIBLE AND EVEN LIKELY DURING THE YEAR, BUT NOWADAYS MAJOR CHANGES IN DIRECTION WOULD BE EXTREMELY DIFFICULT TO MAKE BEFORE THE FOLLOWING YEAR.

5. THE 1984 PLAN IS ALSO THE FIRST PLAN TO BE FASHIONED ENTIRELY DURING ANDROPOV'S LEADERSHIP. WHILE THE 1983 PLAN WAS APPROVED AFTER BREZHNEV'S DEATH, THE LENGTHY AND COMPLICATED PROCESS OF DRAFTING IT HAD ALMOST BEEN COMPLETED AND MAJOR REVISIONS WOULD HAVE BEEN DIFFICULT. WITH THE NEW PLAN, THE GENERAL SECRETARY PRESUMABLY HAD

AN OPPORTUNITY TO MAKE HIS OWN IDEAS FELT FROM THE BEGINNING. HOWEVER, THE SHEER SIZE AND COMPLEXITY OF THE SOVIET ECONOMY UNDOUBTEDLY LIMITED HIS ROOM TO MANEUVER. AS IN OTHER ECONOMIES, ECONOMIC GROWTH IS NOT A ONE-YEAR BT

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E.O. 12356: DECL: OADR
TAGS: ECON, UR
SUBJECT: THE 1984 ECONOMIC PLAN: CONTINUITY AND CHANGE
PROCESS, AND THE LEADERSHIP (INCLUDING ANDROPOV)
UNDOUBTEDLY FELT COMMITTED TO MANY OF THE GOALS AND
SPECIFIC PROJECTS OF THE FIVE-YEAR PLAN.

OVERALL PLAN STRATEGY: HOW FAST SHOULD THE ECONOMY GROW?

6. THE 1984 PLAN CONTINUES THE TREND OF THE 1983 PLAN TOWARDS GROWTH RATES WELL BELOW THOSE EMBODIED IN THE FIVE-YEAR PLAN. IN SPITE OF THE RELATIVELY SUCCESSFUL ECONOMIC RESULTS OF 1983, THE SOVIETS AGAIN HAVE CHOSEN NOT TO TRY TO PUSH THE ECONOMY AT A FASTER PACE. THE 1984 TARGET OF A 3.8 PERCENT INCREASE IN INDUSTRIAL PRODUCTION IS ABOVE THE 1983 TARGET OF 3.2 PERCENT BUT WELL BELOW THE FIVE-YEAR PLAN'S ANNUAL AVERAGE TARGET OF 4.7 PERCENT.

7. THE 1984 TARGET IS ALSO BELOW THE EXPECTED 1983 PERFORMANCE OF A 4 PERCENT INCREASE. THIS MAY REFLECT A BETTER THAN EXPECTED PERFORMANCE IN THE SECOND HALF OF 1983 AFTER THE 1984 PLAN WAS WELL ALONG IN THE DRAFTING STAGE. IT MAY ALSO MEAN THAT THE SOVIETS ARE TRYING TO LEARN TO LIVE WITH THE LOWER GROWTH RATES OF A "MATURE" ECONOMY, WITH A GREATER EMPHASIS ON BALANCED GROWTH AND EASING BOTTLENECKS IN AND BETWEEN KEY SECTORS. WHILE SOME SOVIET ECONOMISTS MAY NOT AGREE WITH THIS OBJECTIVE (SEE MOSCOW 15619 AND 12403), OTHERS PROBABLY ARGUE THAT A POLICY OF MAXIMIZING GROWTH TARGETS IS NO LONGER POSSIBLE, SINCE SHORTAGES IN SOME PARTS OF THE ECONOMY WOULD CAUSE EVEN GREATER WASTE AND SHORTFALLS IN THE REMAINING PARTS.

INCREASING INVESTMENT: A SHIFT IN POLICY

8. IN DETERMINING HOW MUCH INVESTMENT IS NEEDED TO FINANCE THIS GROWTH STRATEGY, THE 1984 PLAN OPTS FOR A 3.9 PERCENT INCREASE IN TOTAL CAPITAL INVESTMENT. AN INCREASE OF THIS MAGNITUDE ACCELERATES THE TREND AWAY FROM THE INVESTMENT POLICY OF THE 1981-85 FIVE-YEAR PLAN. THE FIVE-YEAR PLAN HAD ENVISAGED ANNUAL INCREASES IN INVESTMENT OF 2.3 - 2.8 PERCENT. THESE INCREASES WERE TO BE HELD BELOW THE PLANNED INCREASES IN NATIONAL INCOME IN ORDER TO PROMOTE INTENSIVE GROWTH AND SQUEEZE "RESERVES" OF MANPOWER AND MATERIAL OUT OF THE ECONOMY. THE 1983 PLAN MADE A STEP AWAY FROM THIS INVESTMENT POLICY WHEN THE PROJECTED RATE OF INCREASE IN INVESTMENT (3.2 PERCENT) ALMOST EQUALLED THE PROJECTED INCREASE IN NATIONAL INCOME (3.3 PERCENT). IN A MORE DRAMATIC FASHION, THE 1984 PLAN NOT ONLY CALLS FOR AN EVEN HIGHER RATE OF INCREASE IN INVESTMENT (3.9 PERCENT) BUT ALSO LOWERS THE PLANNED RATE OF INCREASE IN NATIONAL INCOME TO 3.1 PERCENT.

9. THIS DOES NOT MEAN THAT THE SOVIETS HAVE ABANDONED THE GOAL OF SQUEEZING THE RESERVES OUT OF THE ECONOMY. IN HIS SPEECH TO THE DECEMBER PARTY PLENUM (REF B), ANDROPOV MADE THIS CLEAR WITH HIS PROPOSAL THAT THERE SHOULD BE AN ABOVE-PLAN INCREASE OF PRODUCTIVITY OF ONE PERCENTAGE POINT AND AN ABOVE-PLAN REDUCTION IN COSTS OF PRODUCTION OF ONE-HALF POINT. PRESUMABLY THIS CAMPAIGN WILL MOLIFY THOSE LEADERS WHO THINK THE SOVIET ECONOMY CAN GROW FASTER THAN THE 1984 PLANNED RATE. BUT BY MAKING IT "VOLUNTARY," THE CREATION OF NEW BOTTLENECKS OR WORSENING OF OLD ONES CAN BE AVOIDED, AND WORKERS WILL NOT BE THREATENED WITH UNREALISTICALLY HIGH PRODUCTION AND COST-SAVING TARGETS WHICH COULD CAUSE THEM TO LOSE THEIR BONUSES FOR REASONS BEYOND THEIR CONTROL.

ELEMENTS OF CONTINUITY IN INVESTMENT
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E.O. 12356: DECL: OADR
TAGS: ECON, UR
SUBJECT: THE 1984 ECONOMIC PLAN: CONTINUITY AND CHANGE

10. OTHER ELEMENTS OF INVESTMENT POLICY IN THE 1984 PLAN ARE CHARACTERIZED BY GREATER CONTINUITY WITH THE FIVE-YEAR PLAN. THE PERENNIAL EMPHASIS ON REDUCING THE BACKLOG OF UNFINISHED CAPITAL CONSTRUCTION PLAYS A PROMINENT ROLE. GOSPLAN CHAIRMAN BAYBAKOV STATED THAT THE VOLUME OF SUCH CONSTRUCTION WOULD BE REDUCED 3.5 BILLION RUBLES. THIS, HE ADDED, WOULD REDUCE IT TO 75 PERCENT OF THE TOTAL VOLUME OF CAPITAL INVESTMENT AND SUGGESTS A SLIGHTLY FASTER RATE OF CONSTRUCTION COMPLETION THAN UNDER THE 1983 PLAN WHEN UNFINISHED CONSTRUCTION WAS TARGETED AT 78 PERCENT OF TOTAL CAPITAL INVESTMENT.

11. THE 1984 PLAN ALSO FOLLOWS THE ESTABLISHED INVESTMENT POLICY OF EMPHASIZING RECONSTRUCTION AND RE-EQUIPPING EXISTING PLANTS RATHER THAN UNDERTAKING NEW CONSTRUCTION. REFLECTING THIS APPROACH, THE SHARE OF GOVERNMENT CAPITAL INVESTMENT SPENT ON EQUIPMENT IS EXPECTED TO REACH 42 PERCENT, SLIGHTLY HIGHER THAN THE 39 PERCENT LEVEL IN THE FIVE-YEAR PLAN.

ALLOCATION OF RESOURCES: THE USUAL CLAIMANTS

12. WHILE THE PLAN AND BUDGET PRESENTATIONS OF BAYBAKOV AND FINANCE MINISTER GARBUZOV PRESENT FEW ACTUAL FIGURES, THEIR COMMENTS DO SUGGEST NO MAJOR CHANGES IN HOW INVESTMENT RESOURCES ARE ALLOCATED AMONG VARIOUS SECTORS OF THE ECONOMY. BAYBAKOV LIMITED HIMSELF TO NOTING THAT

THE PLAN TOOK ACCOUNT OF THE "NECESSITY" OF DIRECTING CAPITAL INVESTMENT AND OTHER RESOURCES TO THE REALIZATION OF THE FOOD AND ENERGY PROGRAMS, TO SPEEDING UP THE DEVELOPMENT OF BASIC INDUSTRIAL BRANCHES AND TRANSPORT, AND THE "NON-PRODUCTIVE" SECTOR, PARTICULARLY HOUSING. IN HIS COMMENTS, GARBUZOV STATES THAT FUNDS FOR CAPITAL CONSTRUCTION FROM THE STATE BUDGET WILL BE INTENDED "IN THE FIRST PLACE" FOR CONSTRUCTION OF PROJECTS IN THE FUEL/ENERGY AND THE AGRO-INDUSTRIAL COMPLEXES, METALLURGY, MACHINEBUILDING, CHEMICALS, TRANSPORT AND CONSUMER GOODS.

13. CONSERVING THE ENVIRONMENT AND NATURAL RESOURCES: ECHOING ANDROPOV'S MENTION OF THE IMPORTANCE OF THIS SUBJECT IN HIS PLENUM ADDRESS, BAYBAKOV THEN SAYS IT WILL GET ONLY TWO BILLION RUBLES OF STATE CAPITAL INVESTMENT. 1983 PLAN WAS 1.9 BILLION. RECYCLING AND REUSING WATER ARE TO SAVE ELEVEN BILLION CUBIC METERS, WHICH HE EQUATES TO THE AVERAGE ANNUAL FLOW OF THE URAL RIVER. 155,000 HECTARES OF ERODED LAND ARE TO BE RECULTIVATED FOR USE BY AGRICULTURE, FORESTRY OR RECREATION. BAYBAKOV ALSO CITES IMPROVEMENTS IN AIR QUALITY THROUGH CLEANING EXHAUST GASES. TO MEET GROWING DEMANDS, MORE METAL WILL BE EXTRACTED FROM NON-FERROUS ORES, AND VALUABLE COMPONENTS OF THESE AND OTHER ORES WILL BE SAVED.

14. REGIONAL INVESTMENT STRATEGY: NEITHER BAYBAKOV NOR GARBUZOV THROW MUCH LIGHT ON REGIONAL WINNERS AND LOSERS, SUGGESTING THAT ALL PARTS OF THE USSR ARE GETTING SOMETHING, BUT MOSTLY ALONG WELL-ESTABLISHED PATTERNS. BAYBAKOV MENTIONS STARTING CONSTRUCTION OF ADDITIONAL CAPACITY AT FOUR NUCLEAR POWER PLANTS AND THREE THERMOELECTRIC PLANTS IN THE EUROPEAN USSR, AND FURTHER DEVELOPMENT OF HYDROELECTRIC, HYDROCARBON

AND OTHER RESOURCES IN SIBERIA AND THE FAR EAST. DEVELOPMENT IN THE CAUCASIAN REPUBLICS AND CENTRAL ASIA WILL TAKE ADVANTAGE OF THEIR LABOR RESOURCES: LABOR-INTENSIVE LIGHT INDUSTRY AND MACHINEBUILDING PLANTS ARE TO BE LOCATED IN SMALL AND MEDIUM-SIZED TOWNS. CENTRAL ASIAN AGRICULTURE IS TO DEVELOP FRUITS, VEGETABLES AND

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E.O. 12356: DECL: OADR

TAGS: ECON, UR

SUBJECT: THE 1984 ECONOMIC PLAN: CONTINUITY AND CHANGE
ANIMAL HUSBANDRY IN ADDITION TO MORE COTTON.

A GROWING SHARE OF INVESTMENT FOR ENERGY, WITH MODEST
RETURNS IN '84

15. GARBUSOV'S BUDGET SPEECH ANNOUNCED THAT FUNDS
ALLOTTED TO CAPITAL INVESTMENT IN THE ENERGY SECTOR,
ALREADY A LARGE CLAIMANT, WILL GROW ELEVEN PERCENT IN
1984. YET BAYBAKOV SAID PRIMARY ENERGY RESOURCES IN
1984 WILL GROW BY ONLY 3.4 PERCENT. THIS SHARP
DISCREPANCY REFLECTS NOT ONLY THE GROWING COSTS OF
ENERGY EXPLORATION AND PRODUCTION, BUT THE FACT THAT
MANY ENERGY INVESTMENTS MADE NEXT YEAR WILL NOT PAY
OFF FOR SEVERAL YEARS. ACCORDING TO BAYBAKOV, THE 1984
ENERGY PLANS REFLECT THE PROVISIONS OF THE LONG-TERM
ENERGY PROGRAM, A PROGRAM ENDORSED BY THE SOVIET
LEADERSHIP IN APRIL BUT NEVER PUBLISHED.

16. BAYBAKOV STRESSED THAT CONSERVATION OR "RATIONAL USE"
WAS A KEY ELEMENT IN THE PLAN AND WOULD BE ACHIEVED BY
THE INTRODUCTION AND ENFORCEMENT OF NORMS FOR ENERGY
CONSUMPTION, BY ENERGY-SAVING EQUIPMENT AND BY BETTER
ORGANIZATION OF PRODUCTION. NONE OF THESE GOALS ARE NEW,
AND CONSERVATION PLAYED AN IMPORTANT ROLE IN '83'S
ENERGY PLANS. ONLY A FEW OF THE COSTS OF ENERGY CONSERVA-
TION WILL BE BORNE BY THE ENERGY SECTOR SINCE MOST OF THEM
FALL ON INDUSTRY AND CONSUMERS. IT IS NOT POSSIBLE TO
JUDGE FROM INFORMATION PUBLISHED SO FAR WHAT RESOURCES
HAVE BEEN COMMITTED TO ENERGY CONSERVATION.

17. PLANS FOR ENERGY SECTORS

(A) ELECTRICITY: THE '84 TARGET FOR ELECTRICITY
GENERATION (1465 BILLION KILOWATT-HOURS) IS CONSISTENT
WITH PAST PERFORMANCE AND PROBABLY ACHIEVABLE, UNLESS
UNFORESEEN SHORTFALLS IN FOSSIL FUELS LEAD TO POWER
SHORTAGES. BAYBAKOV STATED THAT THE INCREASE IN
ELECTRICITY OVER 1983 WILL BE 3.6 PERCENT AND THAT
EMPHASIS WILL BE PUT ON DEVELOPMENT OF ATOMIC AND HYDRO
POWER STATIONS, WHICH ARE SLATED TO GENERATE 12 PERCENT
MORE ENERGY THAN IN 1983. AN INCREASE OF THIS
MAGNITUDE IN NON-THERMAL POWER PLANS, WHICH WOULD YIELD
ABOUT A TWO-PERCENT INCREASE IN THE OVERALL OUTPUT OF
ELECTRICITY, IMPLIES A SHARP SPEEDUP IN THE VERY SLOW
CURRENT GROWTH IN NUCLEAR POWER CAPACITY.

(B) GAS: THE PLAN TARGET FOR GAS EXTRACTION, ON THE
OTHER HAND, STRIKES US AS AMBITIOUS. ACHIEVING 578 BILLION
CUBIC METERS MEANS AN INCREASE IN PRODUCTION OF EIGHT
PERCENT, WHEREAS ANNUAL INCREASES OF JUST UNDER SEVEN
PERCENT HAVE BEEN TYPICAL FOR THIS INDUSTRY. THE SOVIETS
MAY BE COUNTING ON AN ESPECIALLY GOOD PERFORMANCE IN
THE GAS SECTOR TO OFFSET POSSIBLE SHORTFALLS IN OIL,
AND COAL OUTPUT. UTILIZATION OF THE ADDITIONAL GAS MAY
BE ANOTHER STORY: A DECEMBER 16 PRAVDA REPORT ON THE
SUPREME SOVIET'S PLAN PREPARATORY COMMITTEE FOR ENERGY
REVEALED THAT COMMITTEE MEMBERS CRITICIZED FACTORIES
FOR FAILING TO COMPLETE THE LOW-PRESSURE PIPELINE
SYSTEMS THAT WILL ENABLE THEM TO CONVERT TO GAS USE
THEREBY FORCING THE POWER STATIONS TO CONTINUE
CONTINUE OPERATING ON INCREASINGLY SCARCE OIL. MUCH
ATTENTION WAS PAID BY THE COMMITTEE TO THE NEED TO
CONVERT CARS AND TRUCKS TO THE USE OF COMPRESSED NATURAL
GAS IN LIEU OF GASOLINE.

(C) OIL: OIL AND GAS CONDENSATE PRODUCTION IS THE
BIG QUESTION MARK IN 1984. AN OCTOBER-NOVEMBER SLUMP IN

OIL OUTPUT HAS APPARENTLY CONTINUED INTO DECEMBER,
MEANING THAT THE WEST SIBERIAN OIL FIELD DID NOT PRODUCE
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E.O. 12356: DECL: OADR
TAGS: ECON, UR
SUBJECT: THE 1984 ECONOMIC PLAN: CONTINUITY AND CHANGE
ACCORDING TO PLAN FOR ALL OF THE FOURTH QUARTER OF
1983. THE FIGURES CITED BY BAYBAKOV IMPLY THAT THE 1983
OIL TOTAL WAS ONLY 616.3 MILLION METRIC TONS, WHILE
THE PLAN CALLED FOR 619 MMT. A CONTINUING SLUMP IN WEST
SIBERIA WOULD SCUTTLE THE '84 PLAN AS WELL: THE '84
TARGET OF 624 MMT IS BASED, ACCORDING TO BAYBAKOV, ON
AN INCREASE IN OUTPUT IN WEST SIBERIA TO 390 MMT, OR
62 PERCENT OF THE NATIONAL TOTAL. LAST YEAR THE
PROPORTION WAS 60 PERCENT. THE PREPARATORY COMMITTEE
ON ENERGY CRITICIZED THE TYUMEN' (WEST SIBERIAN) OIL
AND GAS ASSOCIATION FOR FAILING TO PERFORM SATISFACTORILY
AS MEASURED BY THEIR ECONOMIC INDICATORS (OTHER THAN
GROSS PRODUCTION FOR THE FIRST NINE MONTHS) AND
LAMBASTED THE ENTERPRISES RESPONSIBLE FOR OIL INDUSTRY
CONSTRUCTION AND EQUIPMENT. DEFICITS OF ALLUVIAL
DRILLING RODS, COMPRESSORS, PUMPING JACKS AND DRILL
RIG EQUIPMENT WERE SINGLED OUT, LEADING US TO SUSPECT
THAT MUCH OF THE HEFTY ELEVEN PERCENT INCREASE IN
CAPITAL INVESTMENT EARMARKED FOR THE ENERGY SECTOR
IS NEEDED TO COVER INCREASING COSTS OF OIL PRODUCTION
AND EXPLORATION.

(D) COAL: THE 1984 COAL PRODUCTION TARGET
(723 MMT) IS THE SAME AS THE '83 TARGET, WHICH THE COAL
INDUSTRY SEEMS TO HAVE MISSED BY FIVE MMT. ALTHOUGH THEY
TEND TO BE OVERLY OPTIMISTIC ABOUT COAL OUTPUT, THE
SOVIETS MAY EXPECT SOME SMALL INCREASE IN A SECTOR THAT
HAS STAGNATED OR DECLINED FOR YEARS BECAUSE OF PLANS
TO CREATE NEW PRODUCTIVE CAPACITY IN 1984. THE ENERGY
PREPARATORY COMMITTEE NOTED CRYPTICALLY THAT THE
TYULGANSKIY OPEN PIT MINE IN THE ORENBURG AREA WOULD
BE "ACTIVATED" IN THE NEAR FUTURE, WHILE AN ADDITIONAL

SITE CAPABLE OF PRODUCING ONE MILLION TONS OF COAL
WOULD BE REOPENED. BAYBAKOV NOTED IN HIS SPEECH THAT
THE EKIBASTUZ FUEL AND ENERGY COMPLEX IS SCHEDULED TO
PRODUCE 75 MILLION TONS OF COAL IN 1984. THE 4 MILLION
KILOWATT EKIBASTUZ COAL-FUELED POWER PLANT IS ALSO
SCHEDULED FOR COMPLETION NEXT YEAR. BAYBAKOV STATED
THAT CONSTRUCTION AT THE KANSK-ACHINSK COAL BASIN WILL
BE "SPEEDED UP," BUT THERE IS NO SUGGESTION THAT
INCREASES IN PRODUCTION AT KANSK-ACHINSK ARE EXPECTED
IN 1984.

AGRICULTURE: MORE INVESTMENT IN RELATED INDUSTRIES

18. WHILE ENERGY IS SLATED FOR INCREASED INVESTMENT,
IT APPEARS THAT THE "AGRO-INDUSTRIAL COMPLEX" WILL
MAINTAIN ITS HIGH SHARE. IN HIS REMARKS, BAYBAKOV
NOTED THAT MORE THAN 33 PERCENT OF TOTAL CAPITAL INVEST-
MENT WOULD GO TO THIS SECTOR. THIS COMPARES WITH 32.4
PERCENT IN THE 1983 PLAN. CAPITAL INVESTMENT IN
AGRICULTURE ALONE IS SLATED TO INCREASE FROM 37.7
BILLION RUBLES TO 38 BILLION RUBLES, AN INCREASE WHICH
WOULD SLIGHTLY REDUCE ITS SHARE OF OVERALL INVESTMENT.
THIS INDICATES A CONTINUED SHIFT TOWARDS IMPROVING
SERVICES TO AGRICULTURE. BAYBAKOV POINTS OUT IN HIS
REMARKS THAT INVESTMENT IN AGRICULTURAL MACHINEBUILDING
WILL INCREASE 34 PERCENT, IN FERTILIZER PRODUCTION 24
PERCENT, IN CONSTRUCTION OF REFRIGERATOR/STORAGE
FACILITIES 13 PERCENT, AND FEED PENS AND BREEDING
FACILITIES 11 PERCENT.

INDUSTRY: TRYING TO EASE THE BOTTLENECKS

19. BAYBAKOV AND GARBUSOV PROVIDE ALMOST NO DETAIL
ON HOW MUCH INVESTMENT WILL BE DIRECTED TO SPECIFIC
BRANCHES OF INDUSTRY, AND THEY PROVIDE ONLY PARTIAL
INDUSTRIAL PLAN TARGETS. NOTABLE AMONG THESE IS A 5.2
PERCENT INCREASE IN THE MACHINEBUILDING INDUSTRY.
THIS IS ONE PERCENTAGE POINT ABOVE THE 1983 TARGET WHICH
BT

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~~CONFIDENTIAL~~ SECTION 06 OF 07 MOSCOW 16110

E.O. 12356: DECL: OADR

TAGS: ECON, UR

SUBJECT: THE 1984 ECONOMIC PLAN: CONTINUITY AND CHANGE
WAS THE LOWEST EVER FOR MACHINEBUILDING. THE 1984 TARGET
SUGGESTS A RECOGNITION THAT THE MACHINEBUILDING SECTOR
WAS BECOMING A KEY BOTTLENECK IN THE ECONOMY, AND THAT
ITS OUTPUT MUST BE INCREASED. BAYBAKOV PUTS PARTICULAR
STRESS ON MACHINES FOR FULFILLING THE AGRICULTURAL
AND ENERGY PROGRAMS.

20. THE CHEMICAL INDUSTRY, ANOTHER FREQUENTLY CITED
BOTTLENECK, IS ALSO SCHEDULED TO GROW RAPIDLY. OUTPUT
OF PLASTICS IS PLANNED TO GROW 11.8 PERCENT, AND SYNTHETIC
FIBER, A KEY INPUT FOR THE CONSUMER GOODS SECTOR, IS
TARGETED FOR A 5.8 PERCENT INCREASE. ONLY PARTIAL TARGET
FIGURES ARE GIVEN FOR THE FERROUS METALLURGY SECTOR
(I.E. A 1.3 PERCENT INCREASE IN OUTPUT OF ROLLED STEEL),
BUT THESE SUGGEST ONLY MODEST EXPECTATIONS OF IMPROVEMENT
IN THE TROUBLED STEEL INDUSTRY.

TRANSPORTATION

21. ANDROPOV HAS POINTED TO TRANSPORTATION AS ONE OF THE
BOTTLENECKS IN THE SOVIET ECONOMY WHICH MUST BE OVERCOME
TO PERMIT FUTURE GROWTH. SURPRISINGLY, THIS SECTOR
IN 1984 WILL BE FINANCED WITH 30 BILLION RUBLES, WHICH
IS NOT MUCH HIGHER THAN THE LEVEL OF FINANCING PROVIDED
LAST YEAR (28.9 BILLION RUBLES). OF THIS, ONLY 9.5
BILLION RUBLES ARE SLATED FOR THE CHIEF MEANS OF
TRANSPORTATION, THE RAILROADS. THESE RESOURCES ARE
INTENDED TO MAKE POSSIBLE AN INCREASE IN THE GROSS TURN-
OVER IN CARGO OF 3.1 PERCENT, WHILE RAILROAD CARGO
TURNOVER IS PLANNED TO GROW ONLY 1.8 PERCENT. GAS AND

OIL PIPELINES WILL ACCOUNT FOR MUCH OF THE INCREASE
IN CARGO TURNOVER. NO MENTION WAS MADE OF THE CONSTRUCTION
OF COAL PIPELINES IN 1984.

22. IN THE RAILROAD SECTOR, THE PLANNERS APPARENTLY
EXPECT MUCH OF THE INCREASE IN CARGO TURNOVER TO COME
FROM MORE EFFICIENT USE OF EXISTING RESOURCES. AS WAS
REFLECTED IN OCTOBER'S DECREE ON RAILROAD MANAGEMENT
(MOSCOW 13029) THE TIME REQUIRED TO SHIP A FREIGHT LOAD
SHOULD DECLINE BY AN AVERAGE 7.7 HOURS, A FEAT THAT
WILL HAVE TO BE ACCOMPLISHED LARGELY THROUGH TIGHTER
DISCIPLINE. ALSO OF INTEREST WAS BAYBAKOV'S EXPECTATION
THAT ALL THE TRACK ON THE BAYKAL-AMUR RAILROAD (3400
KILOMETERS) WILL BE LAID BY THE END OF 1984.

MORE FOR THE CONSUMER?

23. ONE ELEMENT OF THE 1984 PLAN WHICH APPEARS TO REJECT
A CHANGE IN PRIORITIES UNDER ANDROPOV IS THE TREATMENT
OF THE CONSUMER SECTOR. BACKING UP HIS RHETORIC ON THE
NEED TO IMPROVE CONSUMER GOODS, THE 1984 PLAN FEATURES
HIGHER OUTPUT TARGETS AND INCREASED RESOURCES FOR THE
CONSUMER SECTOR. PLANNED PRODUCTION OF "GROUP B" PRODUCTS
(I.E. CONSUMER GOODS) IS TO INCREASE BY 4 PERCENT, WHILE
"GROUP A" (CAPITAL GOODS) IS TO INCREASE BY 3.7 PERCENT.
FINANCE MINISTER GARBUZOV ALSO STATED THAT FINANCING
FOR LIGHT INDUSTRY IN THE 1984 PLAN WOULD BE 151.7
RUBLES, AN INCREASE OF ALMOST 5 BILLION RUBLES.
FINANCING FOR HEAVY INDUSTRY WILL INCREASE MORE SLOWLY
FROM 151.7 TO 153.5 BILLION RUBLES, AND HEAVY INDUSTRY
WILL BE TASKED WITH THE PRODUCTION OF MORE CONSUMER
GOODS. NEVERTHELESS, THE HUGE DISPROPORTION IN TOTAL
FINANCING HIGHLIGHTS THE EXISTING ROLE OF, AND THE
CONTINUED OVERALL PRIORITY GIVEN TO, HEAVY INDUSTRY.

24. IT IS NOT CLEAR HOW WELL THE CONSUMER WILL FARE IN
OTHER AREAS. THE AMOUNT OF FINANCING FOR "TRADE ORGANIZA-
TIONS" IN 1984 WILL DROP FROM 6.6 BILLION RUBLES TO
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~~CONFIDENTIAL~~

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~~CONFIDENTIAL~~ SECTION 07 OF 07 MOSCOW 16110

E. O. 12356: DECL: OADR
TAGS: ECON, UR
SUBJECT: THE 1984 ECONOMIC PLAN: CONTINUITY AND CHANGE
6.2 BILLION, AND TOTAL NEW HOUSING CONSTRUCTION IS
PLANNED AT 109 MILLION SQUARE METERS, ONLY 2.3 PERCENT
MORE THAN THE 1983 PLAN (WHICH MAY -- OR MORE LIKELY --
MAY NOT HAVE BEEN FULFILLED). THE "REALIZED" VOLUME OF
CONSUMER SERVICES, THE OBJECT OF TOP-LEVEL ATTENTION
IN 1983, IS SUPPOSED TO GROW BY 8.5 PERCENT IN 1984.

A FOOTNOTE ON FOREIGN ECONOMIC RELATIONS

25. TACKED ON TO THE END OF BAYBAKOV'S SPEECH ARE A
FEW UNIMPRESSIONING PARAGRAPHS WHICH IMPLY A CONTINUATION
OF EXISTING FOREIGN TRADE POLICY. BAYBAKOV NOTES THAT
THE AVERAGE ANNUAL INCREASE IN FOREIGN TRADE FOR THE
LAST THREE YEARS HAS BEEN SEVEN PERCENT RATHER THAN THE
FOUR PERCENT ANNUAL INCREASE ANTICIPATED IN THE FIVE-YEAR
PLAN, WITH A GROWING SHARE OF TRADE WITH SOCIALIST
COUNTRIES IN TOTAL SOVIET FOREIGN TRADE (61 PERCENT,
COMPARED WITH 53.7 PERCENT FOR 1980). PRIORITY STILL
GOES TO CEMA ECONOMIC RELATIONS, AND ON-GOING JOINT
PROJECTS ARE MENTIONED. HIS FAVORABLE MENTION OF
EXPANDING ECONOMIC RELATIONS WITH DEVELOPING COUNTRIES
AND OF CONTINUATION OF MUTUALLY BENEFICIAL TRADE
RELATIONS WITH INTERESTED CAPITALIST COUNTRIES IS A
FAMILIAR FORMULATION. BAYBAKOV DOES MENTION PURCHASING
BOTH INDUSTRIAL PRODUCTS AND TRADITIONAL EXPORTS FROM
LDC'S. HARTMAN
BT

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~File USSR econ
JL

THE WHITE HOUSE

WASHINGTON

SITUATION ROOM NOTE

January 30, 1984

~~CONFIDENTIAL~~Soviets Announce 1983 Economic Results

The just-released figures show a moderate rebound in national income, including a strong four percent increase in industrial production.

- o Statistics reveal an across-the-board improvement in other basic economic indicators, including agricultural output, labor productivity, per capita income, and freight turnover.
- o Among industrial sectors, the Soviets claim sharp increases in output in the chemicals, machine building, and food processing branches. At the same time, construction materials, consumer goods and transportation equipment industries continued to lag behind.
- o In the energy sector, oil production barely increased, and coal output fell again. Increases in the output of natural gas continued at a fast clip.

Although Soviet statistics are inaccurate and undoubtedly exaggerate the extent of the improvement, our embassy does not dispute Soviet claims that 1983 was better, especially in contrast to 1982's unusually depressed level. The Soviets have attributed the improvement to the catch-all of "increased productivity." Our embassy's own analysis is that the major factors in increasing productivity were: more favorable weather, an above plan increase in investment; greater worker discipline; and better management.

- o When viewed in this light, the improved performance in 1983 suggests a "one time" upswing rather than a reversal of the long-term decline in Soviet growth rates.
- o While our embassy would not exclude further "one time" gains in 1984, they will be harder to achieve than in 1983. (C)

Moscow 1175, PSN 12780

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BY AK NARA DATE 7/7/08~~CONFIDENTIAL~~

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Economic

Matlock

21

1609

MEMORANDUM

NATIONAL SECURITY COUNCIL

~~SECRET~~

February 27, 1984

INFORMATION

RCM HAS SEEN

MEMORANDUM FOR ADMIRAL POINDEXTER

FROM: JACK MATLOCK *JSW*
SUBJECT: More on Corn Growers

NOTED

Regarding your memo of Feb. 24, I see no objection to an invitation to the Soviet Minister of Agriculture to visit the U.S. I'm not sure this will do much for sales, but it would look good domestically this year. It could also be used to revive some projects which are of broader interest to us, such as 4-H sponsored exchanges of young people. I'll check out with State and get back to you.

On the matter of the Soviet agricultural counselor's travel, this is purely a matter of reciprocity. We let him travel so long as our agricultural attaches have no problems. But they often do have problems, and their travel is crucial to obtaining accurate crop forecasts. (The data they obtain on the spot is correlated with data obtained by other means, and fed into a computer modeling program; without the on-the-spot data, the predictions are much less accurate.) Because of the importance of our predictions of the Soviet crop for markets here, I do not believe we should relent on our insistence on reciprocity.

cc: Bob Kimmitt

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NLRR Feb-114/7 #9689

BY CN NARA DATE 7/7/08

MSG FROM: NSJMP --CPUA
To: Jack Matlock

TO: Jack Matlock

+02/24/84 10:35:19

-- ~~SECRET~~ --

NOTE FROM: JOHN POINDEXTER

SUBJECT: More on Corn Growers

The VP also reports that the Soviet suggested that we invite the Soviet Agricultural Minister to the US to help increase grain sales. Check out this idea. The Soviet also suggested that we allow the agriculture counselor to travel to the farming areas of this country. The growers correctly pointed out that the problem there is reciprocity. The Soviet said maybe they could do something about that.

cc: NSRMK --CPUA BOB KIMMITT

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NLRR FOB-114/7 #9690

BY CU NARA DATE 7/7/08

Economic

Matlock:

1608

23

MEMORANDUM

NATIONAL SECURITY COUNCIL

NOTED

~~SECRET~~

February 27, 1984

INFORMATION

MEMORANDUM FOR ADMIRAL POINDEXTER

FROM:

JACK MATLOCK *JM*

SUBJECT:

Soviet Shipping to Pick up Grain

RCM HAS SEEN

Regarding your note to Richard Levine of Feb. 24, my understanding that the requirement that Soviet ships apply 14 days in advance before entering U.S. ports (without assurance that permission will be granted) is the result of our allowing the Maritime agreement with the Soviets expire.

The 14-day request requirement is standard in the absence of a bilateral agreement. From 1972 until (I believe) 1982, we had a Maritime Agreement with the Soviets which gave them the right to enter 40 specified U.S. ports (established on the basis of reciprocity, with regard to Defense sensitivity) on four days advance notice. This agreement provided for shipment of a third of the grain trade in U.S. bottoms (with the Soviets picking up the tab for the differential cost) and a third in Soviet bottoms. So long as we had excess ships available for the trade, it was advantageous to us, since it in effect forced the Soviets to subsidize our merchant marine.

My understanding is that we did not renew the agreement when it last expired, in part because of Poland, and in part because we no longer had the excess tonnage to use in this trade.

Unless and until there is an economic benefit to us from such an agreement, I would strongly advise against one. The Soviets derive substantial benefits, since the four-day notice rule can be used to enter the market for carriage to third countries, and they pick up considerable hard currency in this trade. (Under the 14-day request rule, they are not able to assure shippers in advance that their ships will be allowed to pick up a scheduled cargo in a particular port.)

cc: Levine, Fortier, Robinson

~~SECRET~~

Declassify on: OADR

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NLRR 106-114/7 #9691

BY C4 NARADATE 7/7/08

MSG FROM: NSJMP --CPUA
To: Richard Levine

TO: Richard Levine

+02/24/84 10:30:07

-- ~~SECRET~~ --

NOTE FROM: JOHN POINDEXTER

SUBJECT: Soviet Shipping to Pick Up Grain

This morning the VP met with American corn growers who had met earlier with an official at the Soviet Embassy. The growers report that the mood this year was much more upbeat than the mood displayed last year by the same man. They discussed various things that could be done to improve agricultural relations. The Soviet raised the issue of reducing the 14 day waiting period to clear Soviet ships into US ports. The Soviets consider this discriminatory. What are the facts?

copy to: Matlock, Fortier, Robinson

cc: NSRMK --CPUA BOB KIMMITT

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NLRR FOI-114/7#9692

BY CN NARADATE 7/7/08

MEMORANDUM

NATIONAL SECURITY COUNCIL

Economic

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~~File~~
~~Matlock~~

~~SECRET~~

March 13, 1984

ACTION

MEMORANDUM FOR ROBERT C. MCFARLANE

FROM: JACK MATLOCK *JM*

SUBJECT: Customs Ban on Soviet Products

Bob Kimmitt understands that Secretary Regan has expressed his intention to publish the ban on importation of six products from the Soviet Union on Thursday, March 15. The message from Treasury indicated that Regan had discussed the matter with Shultz at breakfast today.

I have checked with Eagleburger, who in turn checked with Shultz. Shultz says that the subject did not arise at his breakfast today, and that he remains strongly opposed to action by Customs, and considers the agreement worked out at the breakfast you attended week before last as binding.

I have suggested that Shultz call Regan direct and make his position clear, but I believe it will be necessary for you, also, to speak to Regan. Since the matter has such a short time fuse, a call tonight would be very desirable.

Absent assurances that Secretary Regan will desist from precipitate action, it may be necessary for you to discuss the matter with the President at your 9:30 tomorrow.

Whatever the merits of the case in the abstract, the action of publishing the customs ban at this time could cause a major disruption in our efforts to implement the President's wishes in U.S.-Soviet relations. Therefore, I think it is essential to do what is necessary to avoid the step which Secretary Regan apparently plans.

Recommendation:

That you telephone Secretary Regan in an attempt to dissuade him from moving as he has indicated, to publish a ban on certain imports from the Soviet Union Thursday.

Approve *JM*

Disapprove _____

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NLRR F06-114/7 #9693
BY CN NARA DATE 6/25/89

MEMORANDUM

NATIONAL SECURITY COUNCIL

March 27, 1984

MEMORANDUM FOR ROBERT C. McFARLANE

FROM: JACK F. MATLOCK, Jr. *JFM*

SUBJECT: The Economic Summit: Public Affairs Focus for the President

You asked for my reaction to Ambassador Price's message to Mike Deaver concerning public affairs themes for the Summit (Tab A). I defer to Doug McMinn on the economic themes. On the political side, I share your view that we need to use the "great communicator" to explain our East-West policies to European audiences, as well as to build greater support for our policies among the Allies.

As spelled out in the memo we prepared in conjunction with Bill Martin and others, the President's public statements should underline our efforts to improve East-West relations, with a focus on the arms control agenda. Other related topics include alliance cooperation and the rebuilding of America's defense posture. In short, we and Price are on the same wave length with regard to themes.

I am concerned, however, about Ambassador Price's procedural approach. His direct channel to Deaver could complicate our task, especially in that he advocates an intensive London program without any knowledge of the trip's total objectives and scheduling requirements. In this regard, working with State we had originally proposed a major Presidential address in London. Deaver opted for Dublin (i.e., the only major Presidential address currently on the schedule is his address to the Irish Parliament.) The President will, however, have an opportunity to make some public remarks in Normandy. Our informal thinking, which EUR shares, is that we use the Dublin speech to emphasize broader East-West relations, peace and arms control. In Normandy, the President should emphasize alliance solidarity, reconciliation of former adversaries, and how postwar cooperation has kept the peace for the longest period in modern European history. We obviously cannot directly address NATO's achievements in the Dublin speech.

This leaves London and Price's suggestions. Price is correct in that we cannot rely on a Summit communique and that the President should stress simple, straightforward themes and repeat them often (the old Peter Dailey formula on INF). Price is also correct in that we should build on the President's January 16 speech. But as noted above, much of what Price has outlined may take place in Dublin and Normandy. Moreover, given the state of the President's schedule "a half-day media focus," as suggested by Price, seems

unrealistic and would probably only come at the expense of bilateral meetings. While we are tempted by the suggestion of a TV interview with the President (it is on the notional schedule), we must not mislead ourselves into thinking that we could limit questions to US-Soviet relations. We also must be careful not to appear to be upstaging Mrs. Thatcher on the eve of her Summit.

In sum, we are incorporating Price's suggested themes into our overall public's affairs approach, but we need to bring Price back into the London-State channel, so that London's suggestions mesh with the trip's overall objectives.

Doug ^{GM}McMinn concurs.

(see attached memo for additional comments)

Attachment

Tab A Msg from Ambassador Price

cc: Ron Lehman
Don Fortier
Steve Steiner
Bill Martin

Prepared by:
Peter Sommer/Ty Cobb

MEMORANDUM

NATIONAL SECURITY COUNCIL

March 27, 1984

INFORMATION

MEMORANDUM FOR ROBERT C. McFARLANE

FROM: DOUGLAS W. McMINN 
SUBJECT: The Economic Summit: Public Affairs Focus for
the President

I don't have much to add to Jack's, Peter's and Ty's thoughts on Ambassador Price's message to Mike Deaver concerning public affairs themes for the Summit. However, I would stress that we need one focal point/person to work (from the White House) with White House and NSC staff, State, Treasury and others. My understanding has been that Jim Rentschler will be that person. The sooner Jim is actively engaged, the less confusion and miscommunications there will be.

As you know, we've already done a good bit of work on possible themes for London on the economic side. What Ambassador Price is suggesting dovetails with part of what we have already done.

Economic
~~Matlock~~ 32
File

THE WHITE HOUSE
WASHINGTON

April 4, 1984

Dear Bill:

Thank you very much for filling me in on your recent trip and sharing with me your plans for the U.S.-USSR Trade and Economic Council.

I also appreciate your letter of March 27, which sought guidance on several questions related to your meeting in New York in May. I believe that the President will be pleased to send a message to the Council, and will recommend that he do so. I do not believe his schedule at that time will permit him to receive Deputy Minister Sushkov, however. As for Deputy Prime Minister Baibakov, it is difficult to make a commitment without knowing when he might come, but I would try to arrange a meeting either with the President or with the Vice President if Mr. Baibakov should accept your invitation to visit the United States.

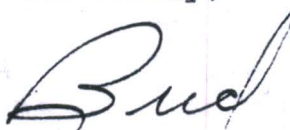
Regarding Aeroflot flights, I doubt that it will be possible to lift the sanction on regular service before your meeting May 20. Sanctions were imposed following the declaration of martial law in Poland, and reaffirmed after the Soviets shot down the Korean airliner and refused to accept responsibility or to pay compensation. In the absence of progress in changing the conditions which caused us to apply the sanctions, and of a general improvement in U.S.-Soviet relations -- which the Soviet Government seems to be resisting at this time -- a reversal of the sanctions on Aeroflot service does not seem realistic.

I know the President would like to make time to see you sometime in the near future, but, with his trip to China coming up, his calendar is extremely tight. We will certainly bear your interest in mind, and if a possibility should arise, I'll let you know.

You have my best wishes for a successful meeting in New York, and I hope that my thoughts on the topics you raised will assist you in making plans for the meeting.

With best regards,

Sincerely,

A handwritten signature in dark ink, appearing to read "Bud", written over the typed name.

Robert C. McFarlane

Mr. C. William Verity, Jr.
Chairman, Executive Committee
Armco Corporate Offices
703 Curtis Street
Middletown, Ohio 45043

MEMORANDUM

NATIONAL SECURITY COUNCIL

~~CONFIDENTIAL~~

April 2, 1984

ACTION

MEMORANDUM FOR ROBERT C. MCFARLANE

SIGNED

FROM: JACK MATLOCK *JM*

SUBJECT: Meeting of U.S.-USSR Trade and Economic Council

Bill Verity, Co-Chairman of the U.S.-USSR Trade and Economic Council, has written you with five requests in connection with the meeting of the Council in New York, which is scheduled for May 21-25. His specific requests are the following:

1. That the President send a message to the Council;
2. That the President receive Deputy Foreign Trade Minister Sushkov, the Soviet co-chairman;
3. That Deputy Prime Minister Baibakov (Chairman of the State Planning Commission) be received at the White House if Verity's group should invite him to visit the United States;
4. That Aeroflot flights be resumed before May 20; and
5. That the President receive Verity before the meeting.

Discussion:

1. Presidential message: I see no objection to this, provided it is carefully worded. (We can coordinate language with State and Commerce, if it is decided to send one.)

2. Sushkov call on President: I believe that this would be inappropriate, given Sushkov's relatively low rank and my feeling that we should not be emphasizing the trade relationship at a time when the Soviets are resisting our overtures to negotiate matters of greater importance. In the past, when the President has received Soviet participants in the meeting of the council, relations were better and the Soviet group was headed by Foreign Trade Minister Patolichev.

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NLRR FOI-114/7 #9694BY CN NARA DATE 6/25/09

3. Baibakov call at White House: It would be more appropriate for the President to receive Baibakov than Sushkov, but even here I suspect that the gesture could be misinterpreted. I would see no problem in the Vice President receiving him, however, and would suggest that Verity be told that if Baibakov comes, we would attempt to arrange an appointment with either the President or the Vice President.

4. Aeroflot Service: This, I believe, is out of the question. The sanction was initially applied because of Poland, and reaffirmed after the KAL shoot-down. The balance of benefits favors the Soviets, and the privilege should be restored only when some progress is manifest in the areas which stimulated the sanction, or until the Soviets are willing to make a concession in an area of interest to us.

5. Verity meeting with President: I have no objection to such a meeting, but given the constraints on the President's time, would recommend a non-committal reply at this point.

I have drafted a reply for you to send Verity (Tab I), which incorporates these recommendations on the five points.

 Doug McMinn concurs.

Recommendation:

That you sign the letter at TAB I.

Approve ☒

Disapprove ☐

Attachments:

Tab I - Letter to Verity for signature

Tab II - Verity-McFarlane Letter of March 27, 1984



ARMCO CORPORATE OFFICES

C. WILLIAM VERITY, JR.
Chairman, Executive Committee
Board of Directors

March 27, 1984

The Honorable Robert C. McFarlane
National Security Advisor to the President
The White House
Pennsylvania Avenue
Washington, D.C. 20050

Dear Mr. McFarlane:

I thoroughly enjoyed our visit last Thursday and appreciate so much you taking the time to visit with me and to bring me up-to-date on our present positions vis-a-vis the Soviet Union.

I talked to Tom Green and Terry Pearce over the weekend and we are making arrangements to see Ambassador Dobrynin during the first week of April. We shall keep you advised of the results of that meeting.

I am also happy that I had a chance to share with you some of the high points of my meeting in Moscow with Prime Minister Tikhonov, as well as meetings with Deputy Prime Minister Nicholai Baibakov and Foreign Trade Minister Patolichev. There is no question in my mind that the Soviets are anxious to move forward in the normalization of relationships, but they want President Reagan to provide some signals that he is desirous of moving forward and that he does understand the Soviets' reluctance to make the first move.

I do believe that the U.S.-U.S.S.R. Trade and Economic Council meeting in New York on May 22-24 might provide a good vehicle for communication with the Soviets.

As I explained to you, the Trade Council is considered by high Soviet officials to be a very important organization. At the meeting in May, we will have not only a meeting of members but, also, the Directors and the Executive Committee, which is composed of Soviet Ministers, including Alkhimov, Chairman of Gosbank.

As agreed, I will check with you early this week on specific questions I asked of you -- namely, would the President send a message of support for the work of the Council and a message for our May meeting which would indicate that he hopes progress is made in ways to facilitate trade between our two countries?

The Honorable Robert C. McFarlane
Page 2
March 27, 1984

Also, would the President receive Vladimir Sushkov, Chairman of the Soviet side of the Council? Mr. Sushkov and I are Co-Chairmen -- one from the American side and one from the Soviet side. Mr. Sushkov would be available on May 21, 22, 23 or 24.

Is it possible for us to invite Nicholai Baibakov, Deputy Prime Minister of the Soviet Union and Chairman of Gosplan, to the United States? We would make all the necessary arrangements for his visit, but it would not be appropriate to invite him unless we knew that he would be received at the White House.

Nicholai Baibakov is one of the most revered men in the Soviet Union because of the important position he has held for many years as Chairman of Gosplan.

And, lastly, if it is possible to reestablish the Aeroflot flights between New York and Moscow by May 22, this would be most helpful in making a significant signal to the Soviet Union.

If you were to let me know that this might be possible, I would communicate with Vladimir Sushkov and tell him that this is being done because of his request and, as a means of facilitating attendance by the Soviets at the meeting May 22-24. I can assure you this would be a most significant signal to the Soviets.

I am most anxious to be of help to you and to the President in any matter regarding our relationships with the Soviet Union. I do believe our Council might be helpful in creating a dialogue.

Also, I am hopeful that I will have a chance to spend about ten minutes with the President at which time I could give him my feelings about the current situation with the Soviet Union, and some other suggestions on possible signals to them.

Sincerely,



CWV:cee

URGENT

March 30, 1984

RCM:

Bill Verity called with the following questions

1. Will you prepare a letter from the President to the Trade Council in which the President will say the work of the Council has been very helpful in restoring trade between our two countries?

2. Will the President receive Vice Minister Sushkov, who is co-chairman of the trade council in US on May 21-25?

3. Could we invite Deputy Prime Minister Baibikhov to the United States? If we did, it would mean he would have to be received at the White House.

4. What is the possibility of Aeroflot flights between New York and Moscow being resumed before May 20?

Kay

*I call
not look
for caught
staffing*
3/30/84 38

4/5
0950

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NATIONAL SECURITY COUNCIL

Amb. Matlock:

Loretta Braxton, Secretariat, wants to know if you would like her to task the State Department to draft a Presidential response to Mr. Verity (in coordination with Commerce) or will you draft the response?

Copy of package attached.

chris

Loretta said that Mr. McFarlane has signed letter to Verity.

4/9

Amb. Matlock:

Loretta called again on this package wanting to know if she should task State (since McFarlane has signed letter) for a draft Presidential statement.

Yes

☒

No

☐

MEMORANDUM

NATIONAL SECURITY COUNCIL

~~CONFIDENTIAL~~

April 2, 1984

ACTION

MEMORANDUM FOR ROBERT C. MCFARLANE

FROM:

JACK MATLOCK *JM*

SUBJECT:

Meeting of U.S.-USSR Trade and Economic Council

Bill Verity, Co-Chairman of the U.S.-USSR Trade and Economic Council, has written you with five requests in connection with the meeting of the Council in New York, which is scheduled for May 21-25. His specific requests are the following:

1. That the President send a message to the Council;
2. That the President receive Deputy Foreign Trade Minister Sushkov, the Soviet co-chairman;
3. That Deputy Prime Minister Baibakov (Chairman of the State Planning Commission) be received at the White House if Verity's group should invite him to visit the United States;
4. That Aeroflot flights be resumed before May 20; and
5. That the President receive Verity before the meeting.

Discussion:

1. Presidential message: I see no objection to this, provided it is carefully worded. (We can coordinate language with State and Commerce, if it is decided to send one.)
2. Sushkov call on President: I believe that this would be inappropriate, given Sushkov's relatively low rank and my feeling that we should not be emphasizing the trade relationship at a time when the Soviets are resisting our overtures to negotiate matters of greater importance. In the past, when the President has received Soviet participants in the meeting of the council, relations were better and the Soviet group was headed by Foreign Trade Minister Patolichev.

~~CONFIDENTIAL~~

Declassify on: OADR

DECLASSIFIED

NLRR P06714/7 #9695BY CN NARA DATE 6/25/09

3. Baibakov call at White House: It would be more appropriate for the President to receive Baibakov than Sushkov, but even here I suspect that the gesture could be misinterpreted. I would see no problem in the Vice President receiving him, however, and would suggest that Verity be told that if Baibakov comes, we would attempt to arrange an appointment with either the President or the Vice President.

4. Aeroflot Service: This, I believe, is out of the question. The sanction was initially applied because of Poland, and reaffirmed after the KAL shoot-down. The balance of benefits favors the Soviets, and the privilege should be restored only when some progress is manifest in the areas which stimulated the sanction, or until the Soviets are willing to make a concession in an area of interest to us.

5. Verity meeting with President: I have no objection to such a meeting, but given the constraints on the President's time, would recommend a non-committal reply at this point.

I have drafted a reply for you to send Verity (Tab I), which incorporates these recommendations on the five points.

^{DM}
Doug McMinn concurs.

Recommendation:

That you sign the letter at TAB I.

Approve _____ Disapprove _____

Attachments:

Tab I - Letter to Verity for signature
Tab II - Verity-McFarlane Letter of March 27, 1984

THE WHITE HOUSE

WASHINGTON

Dear Bill:

Thank you very much for filling me in on your recent trip and sharing with me your plans for the U.S.-USSR Trade and Economic Council.

I also appreciate your letter of March 27, which sought guidance on several questions related to your meeting in New York in May. I believe that the President will be pleased to send a message to the Council, and will recommend that he do so. I do not believe his schedule at that time will permit him to receive Deputy Minister Sushkov, however. As for Deputy Prime Minister Baibakov, it is difficult to make a commitment without knowing when he might come, but I would try to arrange a meeting either with the President or with the Vice President if Mr. Baibakov should accept your invitation to visit the United States.

Regarding Aeroflot flights, I doubt that it will be possible to lift the sanction on regular service before your meeting May 20. Sanctions were imposed following the declaration of martial law in Poland, and reaffirmed after the Soviets shot down the Korean airliner and refused to accept responsibility or to pay compensation. In the absence of progress in changing the conditions which caused us to apply the sanctions, and of a general improvement in U.S.-Soviet relations -- which the Soviet Government seems to be resisting at this time -- a reversal of the sanctions on Aeroflot service does not seem realistic.

I know the President would like to make time to see you sometime in the near future, but, with his trip to China coming up, his calendar is extremely tight. We will certainly bear your interest in mind, and if a possibility should arise, I'll let you know.

You have my best wishes for a successful meeting in New York, and I hope that my thoughts on the topics you raised will assist you in making plans for the meeting.

With best regards,

Sincerely,

Mr. C. William Verity, Jr.
Chairman, Executive Committee
Armco Corporate Offices
703 Curtis Street
Middletown, Ohio 45043

URGENT

March 30, 1984

RCM:

Bill Verity called with the following questions

1. Will you prepare a letter from the President to the Trade Council in which the President will say the work of the Council has been very helpful in restoring trade between our two countries?
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4. What is the possibility of Aeroflot flights between New York and Moscow being resumed before May 20?

Kay

*I ask
not to be
for urgent
staffing*
44
3/30/84

3/29

Do you want Amb Matlock to prepare
a response for your signature to
Bill Verity?

☒ Yes☐ No

Wilma

26 43
897
Review
initiated



ARMCO CORPORATE OFFICES

C. WILLIAM VERITY, JR.
Chairman, Executive Committee
Board of Directors

46
MAR 29 1984

March 27, 1984

The Honorable Robert C. McFarlane
National Security Advisor to the President
The White House
Pennsylvania Avenue
Washington, D.C. 20050

Dear Mr. McFarlane:

I thoroughly enjoyed our visit last Thursday and appreciate so much you taking the time to visit with me and to bring me up-to-date on our present positions vis-a-vis the Soviet Union.

I talked to Tom Green and Terry Pearce over the weekend and we are making arrangements to see Ambassador Dobrynin during the first week of April. We shall keep you advised of the results of that meeting.

I am also happy that I had a chance to share with you some of the high points of my meeting in Moscow with Prime Minister Tikhonov, as well as meetings with Deputy Prime Minister Nikolai Baibakov and Foreign Trade Minister Patolichev. There is no question in my mind that the Soviets are anxious to move forward in the normalization of relationships, but they want President Reagan to provide some signals that he is desirous of moving forward and that he does understand the Soviets' reluctance to make the first move.

I do believe that the U.S.-U.S.S.R. Trade and Economic Council meeting in New York on May 22-24 might provide a good vehicle for communication with the Soviets.

As I explained to you, the Trade Council is considered by high Soviet officials to be a very important organization. At the meeting in May, we will have not only a meeting of members but, also, the Directors and the Executive Committee, which is composed of Soviet Ministers, including Alkhimov, Chairman of Gosbank.

As agreed, I will check with you early this week on specific questions I asked of you -- namely, would the President send a message of support for the work of the Council and a message for our May meeting which would indicate that he hopes progress is made in ways to facilitate trade between our two countries?



The Honorable Robert C. McFarlane

Page 2

March 27, 1984

Also, would the President receive Vladimir Sushkov, Chairman of the Soviet side of the Council? Mr. Sushkov and I are Co-Chairmen -- one from the American side and one from the Soviet side. Mr. Sushkov would be available on May 21, 22, 23 or 24.

Is it possible for us to invite Nicholai Baibakov, Deputy Prime Minister of the Soviet Union and Chairman of Gosplan, to the United States? We would make all the necessary arrangements for his visit, but it would not be appropriate to invite him unless we knew that he would be received at the White House.

Nicholai Baibakov is one of the most revered men in the Soviet Union because of the important position he has held for many years as Chairman of Gosplan.

And, lastly, if it is possible to reestablish the Aeroflot flights between New York and Moscow by May 22, this would be most helpful in making a significant signal to the Soviet Union.

If you were to let me know that this might be possible, I would communicate with Vladimir Sushkov and tell him that this is being done because of his request and, as a means of facilitating attendance by the Soviets at the meeting May 22-24. I can assure you this would be a most significant signal to the Soviets.

I am most anxious to be of help to you and to the President in any matter regarding our relationships with the Soviet Union. I do believe our Council might be helpful in creating a dialogue.

Also, I am hopeful that I will have a chance to spend about ten minutes with the President at which time I could give him my feelings about the current situation with the Soviet Union, and some other suggestions on possible signals to them.

Sincerely,

A handwritten signature in cursive script, appearing to read "Dick".

CWV:cee

I. SOVIET UNION

TRADE POLICY

During 1981, the Reagan Administration reviewed United States trade policy towards the CMEA* countries, with special attention to the Soviet Union. It acknowledged that the Soviet Union and its Warsaw Pact allies remain the principal threat to Western security, and U.S. trade and economic policy toward the Eastern Bloc must be especially tailored to complement the objectives of U.S. political and security policies towards these countries.

In particular, U.S. economic policies must support key Administration objectives of deterring Soviet adventurism, redressing the military imbalance between the West and the Warsaw Pact, and strengthening the Western alliance. At the same time, the Reagan Administration has stated on several occasions that the U.S. desires a constructive and mutually beneficial relationship with the Soviet Union and is prepared to expand nonstrategic trade if the Soviet Union observes international norms of behavior.

An important premise behind the Administration's policy is the reinforced recognition that trade with the West may enhance Soviet military capabilities directly and can result in the transfer of technology not otherwise available which

* Council for Mutual Economic Assistance.

may make a significant contribution to Soviet military capabilities. Moreover, certain economic relations with the Soviet Bloc may lead to levels of dependence which increase Western vulnerability to political influence and coercion by the Soviet Union. A thoughtful East-West economic strategy can enhance Western economic strength without contributing to Soviet military capabilities.

The potential for Western vulnerability is increased as a result of extending subsidized export credits to the East European nations and the Soviet Union. Credits have been extended liberally by the West in the past 10 years because the Soviet Union and Eastern Europe have been considered to be good risks, although the U.S. has not extended official credits to the Soviet Union since 1975. The debt obligation of the nonmarket economies to the West is now an important part of the East-West trade picture. Last year it reached about \$80 billion, and more recently, has become a serious area of concern for Western banks and security analysts, in view of Poland's difficulties and those that other East European countries have experienced, in part because of a heightened concern stemming from the Polish situation.

Since it is difficult to implement an effective East-West trade policy unilaterally, the United States has attempted to prevent trade from becoming a source of dissension and division in the Western alliance. The United States has worked closely with its allies to insure, in the words of the

the Ottawa Summit declaration, that, "In the field of East-West relations our economic policies continue to be compatible with our political and security objectives." At the Summit, held in July 1981, the Summit nations* agreed to hold a special high-level meeting of COCOM--the Coordinating Committee for Multilateral Export Controls--to discuss how to improve the effectiveness of multilateral controls on trade with the East. This meeting was held in January 1982 and the agenda focused on the need for improvements in the international system of security controls, including closer harmonization of national licensing procedures and more effective enforcement efforts. The participants reaffirmed their determination to strengthen the international security controls system.

In addition to these actions and the tightening of the export control list, the United States will strive to decontrol products, as appropriate, at the lower end of the technology spectrum. The purpose of U.S. policy in this area will be not to stop trade with the Soviet Union but rather to manage the flow of trade in nonstrategic areas on the basis of mutual advantage.

SANCTIONS AGAINST THE U.S.S.R.

However, even in the area of nonstrategic trade, the United States cannot divorce its policies from overall Soviet behavior.

*United States, Canada, Japan, United Kingdom, France, Federal Republic of Germany, and Italy.

Economic and political sanctions against the Soviet Union, in response to the U.S.S.R.'s heavy and direct responsibility for the repression in Poland, were announced by President Reagan on December 29, 1981.* They were designed to convey that the United States cannot and will not conduct "business as usual" with the perpetrators of the crackdown in Poland and those who aid and abet them. The measures included:

- o suspension of action by the Commerce Department on all license applications for the export of high technology and oil and gas equipment and technology;
- o addition of refining and transmission equipment to the list of energy-related exports subject to controls (i.e., the list was previously restricted to exploration and production equipment);
- o postponement of negotiations on a new U.S.-Soviet long-term grain agreement;
- o suspension of negotiations on a new U.S.-Soviet Maritime Agreement;
- o suspension of Aeroflot flights between the United States and the Soviet Union;
- o closure of the Soviet Purchasing Commission in New York;
- o termination of U.S.-Soviet exchange agreements on energy, space, and science and technology, scheduled to expire in mid-1982, and initiation of a review of all other U.S.-Soviet exchange agreements.**

OIL AND GAS CONTROLS

In this area, the President expanded the list of oil and gas equipment requiring licenses, and announced that the issuance of licenses for items on the expanded list would be

* 17 Weekly Compilation of Presidential Documents, p. 1429-30.

** 47 F.R. 141-145 (January 5, 1982).

suspended. Neither the high technology nor oil and gas sanctions applied to licenses which already had been issued, although the Commerce Department notice announcing the suspension of the processing of licenses for exports to the Soviet Union stated that outstanding validated licenses and authorizations "may be reviewed to determine whether suspension or revocation may be necessary to be consistent with the objectives of this action."

At the time these sanctions were announced, the United States controlled exports of oil and gas technology for exploration and production for foreign policy reasons under the Export Administration Act (P.L. 96-72, 92 Stat. 503, September 29, 1979). These controls were intended to influence the development of a key sector of the Soviet economy which is dependent particularly on Western equipment and technology. The President's decision to expand the list of products and technologies under control was related directly to the degree of importance the Soviets have placed on developing this sector of their economy. The new sanctions extended existing controls to cover equipment and technology for oil and gas transmission and equipment in the refining area, and suspended licensing on new items.

GRAINS AGREEMENT

The President chose to postpone negotiations on a new long-term grains agreement. At the time of this action, the

United States and the Soviet Union were trading under an agreed one-year extension (through September 30, 1982) of the five-year 1975 grains agreement, according to which the United States is obliged to provide 6-8 million metric tons (MMT) of grain per year to the Soviet Union without prior consultation. That interim ceiling had already been increased in routine bilateral consultations to 23 MMT, and the Soviets had bought 10.9 MMT of wheat and corn. (Discussion of the President's decision to lift the grain embargo is included below.)

MARITIME AGREEMENT

The President suspended negotiations toward a new maritime agreement, the previous one having expired on December 31, 1981. A new regime of port access controls for Soviet ships was subsequently implemented. The tightening of maritime regulations will affect Soviet vessels formerly covered by the maritime agreement, including merchant vessels, training ships, and nonfisheries research vessels.

As of January 1, 1982, ships formerly covered, no longer had guaranteed access to 40 U.S. ports on a 4-day notice, but were required to request entry to all U.S. ports at least 14 days before the intended port call. Each Soviet request will be treated on a case-by-case basis. For the time being there will be a presumption of denial for port requests by

Soviet passenger vessels and freighters, along with a presumption of approval for port requests by Soviet bulk carriers engaged in the bilateral trade of products not embargoed by the President.

OTHER SANCTIONS

The President also announced the closure of the Soviet Purchasing Commission; the suspension of Aeroflot service to the United States, which consisted of two weekly flights between Moscow and Washington; and the Administration's intention not to renew exchange agreements on energy, space, and science and technology, scheduled to expire in mid-1982. In addition, the President ordered a complete review of all other U.S.-Soviet exchange agreements.

TERMINATION OF THE GRAIN EMBARGO

On April 24, 1981, President Reagan lifted the partial agricultural trade embargo imposed by the Carter Administration,* fulfilling his promise to do so made during the 1980 presidential campaign. The President noted that as a candidate he had opposed the embargo "because American farmers had been unfairly singled out to bear the burden of this ineffective national policy." The lifting of the embargo had been held up to make certain that "the Soviets and other nations would not mistakenly think it indicated a weakening of our position"

* 17 Weekly Compilation of Presidential Documents, p. 465.

toward Soviet actions around the world, the President said. The President emphasized that there had been no change in United States opposition to the Soviet invasion of Afghanistan. "The United States, along with the vast majority of nations, has condemned and remains opposed to the Soviet occupation of Afghanistan, and other aggressive actions around the world," the President added, warning that "we will react strongly to acts of aggression wherever they take place." *

The President at the same time also lifted the ban on exports of phosphate rock and other phosphate-based materials** to the U.S.S.R., which was imposed February 7, 1980, primarily in support of the agricultural embargo.

The President's order on April 24, 1981, also rescinded the ban on exports to Afghanistan of agricultural products and phosphatic materials. The East Coast International Longshoreman's Association announced April 24, 1981, that its ban on loading grain and phosphate shipments bound for the U.S.S.R. was being lifted.

The first grain consultations under the long-term grain agreement (LTA) since the lifting of the embargo took place in London in early June 1981. Three major developments emanated from these meetings. First, the Soviets were

* Ibid.

** 46 F.R. 23923-23924 (April 29, 1981).

allowed without further consultations to purchase up to 3 MMT tons each of wheat and corn through September 30, 1981, over and above the 8 MMT already purchased under the fifth year of the LTA. Second, the Soviets would be allowed to purchase up to 3 MMT each of wheat and/or corn for delivery after September 30 before further communication must take place. And finally, both sides agreed to meet later in the summer to begin negotiations on a new LTA, the current one expiring on September 30, 1981.

In August 1981, negotiations began in Vienna on a new LTA. The U.S. delegation was headed by U.S. Trade Representative William Brock. These talks yielded an agreement to extend the provisions of the existing pact without change through September 30, 1982. Under these terms, the Soviets would purchase at least 6 MMT of wheat and corn in roughly equivalent amounts and could purchase up to 8 MMT during the year ending on September 30, 1982, without prior consultations with the United States Government.

Delegations of the United States and the Soviet Union met on September 30, 1981, for their first semiannual consultation under the extended agreement. Subsequently, the United States announced that it would make available for purchase by the Soviet Union with no further consultations required, an additional 15 MMT of grain.

The Soviet Union again experienced a poor harvest in 1981, with grain output estimated at 175 MMT versus a targeted output of 239 MMT. As a result of the shortfall, the U.S.S.R. is expected to import a total of 42 MMT of grain in the July 1981-June 1982 period. This level of grain imports will place additional strains on already hard-pressed Soviet hard currency resources, which have been adversely affected during recent months by decreasing demand and soft prices for oil on world markets, falling gold prices, and direct and indirect economic support for Poland.

The lifting of the grain embargo had a positive impact on U.S.-Soviet trade during 1981. Total trade increased from \$1.9 billion in 1980 to over \$2.6 billion in 1981. United States exports to the Soviet Union totaled \$2.3 billion, a 54.9 percent increase above the previous year. United States imports from the Soviet Union decreased from \$452.9 million in 1980 to \$347.4 million in 1981.*

* See Twenty-Ninth Quarterly Report to the Congress and the Trade Policy Committee on Trade Between the United States and the Nonmarket Economy Countries During 1981, USITC Publication 1236, March 1982.