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## The USSR's Economic Strategy up to the Year 2000

### Aims, Methods and Chances of Success

by Dieter Lösch, Hamburg\*

**The XXVIIth Congress of the CPSU marked the beginning of a new phase in Soviet economic policy which is to last to the year 2000. The Congress laid down the objectives for this phase and the means by which the objectives are to be achieved. Our article examines the question whether, or to what extent, the Soviet Union will be able to reach the goals it has set itself for this period.**

Just short of a year before the XXVIIth Congress of the CPSU, in Mikhail Gorbachev a representative of the younger, more dynamic generation of the Soviet leadership took over the helm of the Soviet state. Only one month after taking office he made a statement to the Central Committee of the CPSU that, "The most important question at present is the following: how, and by what means, can the country achieve an acceleration of economic development? . . . The historical fate of the country and the position of socialism in the modern world depend in many respects on how we tackle this question."<sup>1</sup> Gorbachev has since repeated this statement in numerous speeches and emphatically confirmed it again at the XXVIIth Party Congress in February 1986.

Following a phase of long-term decline in growth in the Soviet economy, which had almost reached the point of stagnation, the new leadership has obviously recognised the danger that the gap in the level of economic development between the Soviet Union and the western industrialised countries could become even greater in future and that this could have weighty consequences for the attractiveness of socialism both at home and abroad. The Soviet leadership thus sees itself faced with a new, historical challenge: following the phase of industrialisation and the for a time enormous *extensive* economic growth attendant on it, the

transition to a phase of *intensive* growth must now be mastered. This task must today "be lent the same political priority as the industrialisation of the country had in its time".<sup>2</sup> The mastering of the "scientific-technical revolution" is the historical mission of "developed socialism", and must be achieved by the end of the century.

A new phase in Soviet economic history has thus been rung in. The beginning of this phase, which is to last to the year 2000, was marked by the XXVIIth Party Congress, where the objectives for this phase were laid down and the means were listed by which the objectives are to be achieved. For western economists studying the Soviet Union this raises the question whether, or to what extent, the Soviet Union will be able to achieve the goals it has set itself for this period, following the complete failure of the over-ambitious strategy of catching-up and overtaking of the Khrushchev and early Brezhnev eras.

#### The Aims

The Soviet Union's set of economic policy goals for the period up to the turn of the century is, as in the past, characterised by the "magical triangle": more *consumption*, more *investment* and "as much as

<sup>1</sup> Pravda of 24th April, 1985.

<sup>2</sup> M. Gorbachev, quoted in H. H. Höhm ann: Zum Stellenwert von Wirtschaftszielen in der sowjetischen Politik, Berichte des Bundesinstituts für ostwissenschaftliche und internationale Studien, 33-1985, p. 8.

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necessary" for *armaments*<sup>3</sup> – goals which are obviously regarded as being fundamentally of equal rank.

More consumption and "as much as necessary" for armaments are the supreme goals of Soviet economic policy, determined by social policy, whereas more investment is simply an intermediary goal, a means of achieving the two supreme goals. None of these three goals has been quantified precisely for the entire fifteen-year period to the year 2000. However, the Party Congress clearly named the following global objectives:

- national income and industrial production are to be doubled by the end of the century,
- productive capacity is also to be doubled, whereas
- the productivity of labour is to be increased by a factor of 2.3 to 2.5.

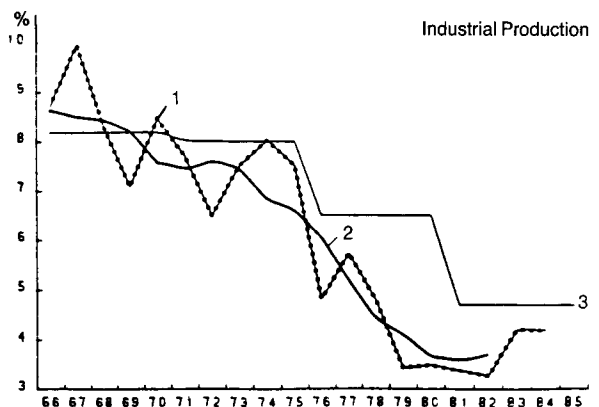
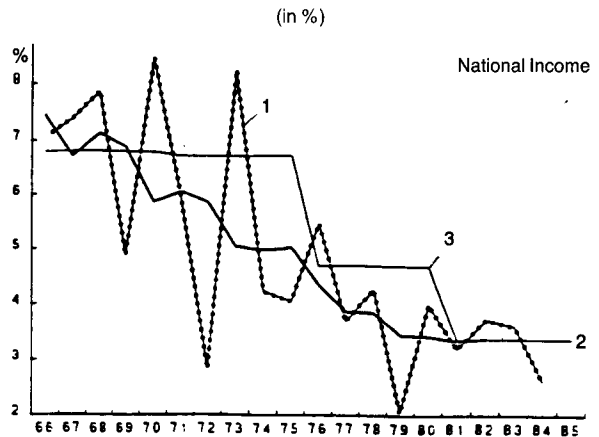
These are indeed ambitious goals. This can clearly be seen if the annual rates of growth necessary to achieve these goals are compared with the rates achieved in the past. The doubling of national income, industrial production and productive capacity in 15 years means an average annual rate of growth of these quantities of 4.7 %, and an increase in labour productivity by a factor of 2.3 to 2.5 an average annual growth of 5.7 to 6.3 %. During the period of the last Five Year Plan national income achieved an average annual growth rate of only 3.4 % and investment an average annual growth rate of 3.2 %. As Figure 1 shows, the five-year moving average of the growth rate of national income has remained below 4.7 % since 1975. Indeed, in the last 20 years national income growth rates of 5 % or more were only achieved in a total of five years. Things look better in the case of industrial production, its average growth rate in the last 15 years being above the figure of 4.7 % aimed at for the next fifteen. The growth rate of the productivity of labour, however, remained in the last 15 years in every case below the five percent level, and usually considerably below it.<sup>4</sup>

### The Means

The USSR's future economic policy strategy consists of three interdependent partial concepts:

- First, there is the *mobilisation policy* begun by Andropov and continued with greater intensity by Gorbachev, which is to continue to be followed in future. Its aim is to put to full use the reserve capacities of the Soviet people by disciplining or motivating them and thus to improve considerably the "efficiency" of the economy. Conservative circles incline towards a partial return to Stalinist methods to achieve this, i.e. to tight controls and considerably sharpened sanctions,

Figure 1  
Growth of National Income and Industrial Production of the USSR  
(in %)



- 1 = annual growth rates.
- 2 = five-year moving averages.
- 3 = plan targets.

Source: CMEA, Selected Indicators 1985, published by Erste österreichische Spar-Casse, compiled by Wiener Institut für internationale Wirtschaftsvergleiche, Graph A/7.

whereas the "progressives" hope that the workers can be better motivated by more effective incentives.

- While the aim of the first partial concept of future Soviet economic policy is to exploit as far as possible the reserves to be found in the factor of production labour, the second, the *modernisation concept*, is directed fully towards the growth reserves inherent in the factor capital. The obsolete means of production of the Soviet

<sup>3</sup> Prime Minister R y z k o v in his speech to the Party Congress. The Soviet leadership undoubtedly has an interest in limiting armaments for economic reasons. But in the face of the American SDI project, their own claims to the status of superpower and the pressure group influence of their military-industrial complex, Soviet expenditure on armaments will with almost absolute certainty continue to rise absolutely in the medium term.

<sup>4</sup> The overall productivity of labour increased from 1981 to 1985 by 3.1 % on an annual average and thus remained 0.4 percentage points below the plan figure of the 11th Five Year Plan.

economy are to be completely replaced by new means of production "of the highest technological standard". Within the framework of a structurally oriented comprehensive programme, principally the branches most promising for the future are to enjoy priority. Research and development are, correspondingly, to be supported intensively and the time required until new technologies are ready for application and can be implemented in practice is to be reduced drastically.

□ The third component of Gorbachev's economic policy, the *reform concept*, apparently represents a compromise between the conservatives, who fear incalculable risks from the weakening of the centralist element in the Soviet economy, and the so-called liberalisers, who are convinced that the Soviet economy has become too large and complicated to be directed effectively from the centre. On the one hand, the role of state planning is to be strengthened, but at the same time the independence and the responsibilities of production units are to be extended considerably.

Concretely, the system of "economic levers" is to be extended by more strongly enforcing the keeping by enterprises of accounts on the basis of market-oriented prices. More effective incentives are to be offered but criteria and possibilities for effectual material sanctions are also to be created. While the quality of the plans and plan fulfilment discipline are to be improved, it is hoped that the creation of more room for manoeuvre for the production units with regard to activities not covered by the plan – supported by a tightening of management structures in industry after the pattern of the agricultural sector and a reform of the rules for investment financing – will mean an increase in initiative on the part of production combines and individual enterprises. Moreover, these are to be regrouped in more efficient units and to receive an extension of their rights and greater responsibility for the results of their economic activities, on the basis of the experiences gained with the reform experiments being conducted in five branches of industry since 1984.

Despite a certain amount of vagueness and inconsistency in the announcements made at the Party Congress regarding the future course of Soviet economic policy, Gorbachev's three-part global concept looks pretty convincing. The three partial strategies complement one another: the *short-term* effects of the mobilisation policy, which is aimed at the factor labour, are to provide the initial spark for the *medium to long term* modernisation strategy, the full implementation of which requires an immediate thrust in growth, without which, in turn, it will scarcely be possible to accelerate the growth of investment to the degree foreseen. Both

partial concepts, finally, are supported by the reform concept, which aims at the removal of barriers to motivation and innovation inherent in the system.

### Chances of Success

The success of Gorbachev's economic policy "turn" will, however, depend both on the extent to which his concept is in fact put into practice and on the suitability of the intended measures to improve the quality of the factors of production labour and capital or to improve their usage. Besides an improvement in the allocational efficiency of the Soviet economy, the speed and extent of technical progress will play a decisive role here.

The aim of the mobilisation strategy is a fundamental improvement in the achievement motivation of the factor labour, from upper managers down to the ordinary workers. In the light, however, of the experiences made previously in the Soviet Union with attempts to motivate Soviet citizens to increase their economic efforts, the additional growth potential of the mobilisation policy measures already introduced or still to be expected can probably be estimated to be slight for the following reasons:

□ The disciplinary campaign which has been running since 1983 and has been intensified since the beginning of 1985, a mixture of moral appeals and increased sanctions, has probably led to a decrease in the widespread absenteeism from the workplace and thus to an improved utilisation of the existing labour force potential. It is estimated that this caused an additional one per cent increase in industrial production in 1985.<sup>5</sup> Since the disciplinary measures are already in force and long lags are unlikely, it is quite possible that no further impetus to growth worth naming will emanate from them in future, particularly since the pressure of sanctions cannot be raised indefinitely. This argument is backed above all by the continuing excess demand for labour, as a result of which workers who have been fired for breaches of discipline or inadequate results can find a new job relatively easily. Furthermore, a return to the draconian punishments of the Stalin era would certainly involve too many political risks for the party leadership.

□ Whether or not it will be possible, therefore, to achieve a further thrust of growth via motivational measures will depend primarily upon whether, and to what extent, the Soviet Union in future succeeds in establishing a significantly closer connection between

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<sup>5</sup> See, for example, Vladimir K o n t a r o v i c h : Discipline and growth in the Soviet economy, in: Problems of Communism, Vol. XXXIV (1985), No. 6, pp. 18-31, p. 30 f. In the agricultural sector this growth effect was certainly smaller.

individual effort and material rewards than is the case today, i.e. in improving considerably the system of material incentives. One essential prerequisite for this is a much greater orientation of pay towards criteria based on individual effort and a correspondingly stronger differentiation in income. The social acceptability of greater income differentiation in the Soviet Union appears, however, to be limited, despite heightened propaganda for the socialist principle of distribution, "to each according to his efforts". In addition, the motivational effect of differences in income will remain within certain bounds as long as increasing income can only be translated to a very limited extent into more consumption due to the continuing scarcity of consumer goods.

□ The chances are not very great that the mobilisation campaign will succeed in so influencing management motivation and management behaviour that the organisation of work is decisively improved, supervision is greatly intensified, plan fulfilment is increased and, above all, the translation of technical progress into product innovations and innovations in the means of production is accelerated considerably, for the way in which the economic leaders fulfil these tasks is strongly marked by the system surrounding them. Only if this changes fundamentally as a consequence of the reform policies can a noticeable improvement in inadequate management performance be achieved.

All in all, therefore, in the short to medium term only a slight – and non-recurring – increase in the rate of growth of production is to be expected from the mobilisation measures announced or put into force so far. It is difficult to quantify this precisely in percentage points, but additional growth is likely at best to reach a value of 1 % to at most 2 % in 1986 and then to return gradually to zero.

### Growth Spurt

The size, speed and technological standard of the future modernisation of the Soviet economy depend on the stock of new technologies ready for application, on the translation of such applicable technologies into innovations, and on the imports of technology which can be put into effect.

□ As far as the stock of new technologies capable of being applied is concerned, a certain modernisation reserve may indeed exist which, if it were translated into innovations in the means of production, could at least partially heave the technological standard of a number

of branches onto a considerably higher level within a few years. Following such a technological spurt based on previous research and development results, however, the modernisation of productive capacity will only be able to proceed at the same pace as technical progress, i.e. at the speed of domestic research and development, if one abstracts, to begin with, from imports of technology. The reserves of applicable technologies and the capacities of technological research and development in the Soviet Union, however, remain a matter of speculation.

□ The question as to the chances of accelerating considerably the speed of the translation into practice of research and development results can be answered with greater certainty. For according to the unanimous opinion of western (and many socialist) economists, this problem represents the Achilles heel of the Soviet economic system. The reasons for Soviet enterprises' lack of readiness to innovate is seen in the aversion to risks<sup>7</sup> which dominates at every level of the hierarchy in the Soviet economy. Plan fulfilment is a more immediate problem for Soviet managers than the modernisation of their plant. A radical overcoming of the innovative weakness inherent in the system of the Soviet economy can therefore only be expected from far-reaching reforms of the system. These would have to create pressure to innovate by means of both much stronger economic sanctions for non-innovative behaviour and more effective incentives to innovate. In Gorbachev's reform concept, however, such a strengthening of sanctions has until now been scarcely discernible.<sup>8</sup> And doubts are justified as to whether the proclaimed greater independence for enterprises and improved possibilities for self-financing in themselves represent adequate incentives to innovate.

□ The Soviet Union's opportunity of giving decisive impulses to the modernisation strategy via the import of technology is relatively modest. Despite the comprehensive technology programme decided upon by the 41st CMEA Conference, the Soviet Union's CMEA partners will with certainty only be able to contribute to a limited extent to the solution of the enormous task of modernising Soviet productive capacity completely within 15 years. Although the more advanced CMEA countries are able to supply the Soviet

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<sup>7</sup> On this point see Siegfried Schopp: Die sowjetische Westhandelsstruktur – ein außenhandels-theoretisches Paradoxon?, Stuttgart, New York 1981, pp. 93 f. and pp. 154 ff.

<sup>8</sup> It was simply announced that uneconomical enterprises would no longer receive unlimited subsidies. It was also implied that manager careers would in future be dependant on innovative courage; but as long as plan fulfilment is the highest commandment for the directors this intention will hardly have much effect.

<sup>6</sup> See, for example, R. Amann, J. Cooper (eds): Industrial Innovation in the Soviet Union, New Haven, Conn. 1982.

Union with relatively modern means of production for a number of branches, they will be unable to fill the Soviet Union's "technological gap", especially regarding many state-of-the-art technologies. It will probably also be impossible to close this gap via technology imports from the West because – apart from the problem of having to finance such imports via exports to the West or huge credits – the Soviet Union is confronted with Western restrictions on exports of technology within the framework of the Cocom list.

All in all, therefore, it is difficult to imagine that the Soviet Union can succeed in modernising its entire productive capacity to the "highest technological level" in the next fifteen years. This does not exclude the possibility that the modernisation efforts nevertheless trigger a growth spurt in production and productivity. But it appears unlikely that this will be enough to double production and increase productivity by a factor of two-and-a-half by the year 2000; for this would mean that the Soviet Union would have to reach a level of production per capita and labour productivity comparable to present levels in the most advanced western industrialised countries.

This intensification requires not only *better* but also *more* investment. An increase of around 4.6 % on an annual average is planned for the next five years. This plan target does not appear unrealistic. It is doubtful, however, whether the growth of investment can be kept continuously at that level in the following ten years, and whether it will be at all adequate – in the face of a possible further fall in the productivity of capital<sup>9</sup> – to achieve the growth in capacity aimed for.

The qualitative and quantitative sides of the modernisation problem are interdependent. The investment necessary to reach the targets requires that a higher growth path in the production of means of production can successfully be reached via a technology push ("intensification"). Vice versa, the speed at which the technological level of the Soviet economy can be raised also depends on the annually realisable growth rates of modernisation investment. This means that the quantity of modernisation investment will be lower to the same extent as the qualitative improvement of productive capacity in the producer goods industry falls behind expectations, and that further intensification will thus take place more slowly. Such cumulative effects which put a brake on

modernisation are all the more likely as the mechanism of the economy is to be reformed at the same time; and reforms involve changes and uncertainties which experience shows at least jeopardize the achievement of plan targets for a more or less long transition period.<sup>10</sup>

### Reform of the Economic Mechanism

The causes of the notorious lack of efficiency of planned economies of the Soviet type ceased a long time ago to be a subject of debate between western and socialist economists. Furthermore, the experiences of the socialist countries with reforms have provided the empirical proof that "decentralisation", i.e. the creation of a so-called parametric steering system, does not cure the inefficiency of the traditional planned economy, but at best alleviates it somewhat. Still, Gorbachev's reform concept envisages simply the half-hearted extension of an already existing parametric steering system.<sup>11</sup> The aspired after, fundamental improvement in the efficiency of the Soviet system cannot be achieved in this way. The previous experience with reforms in all the socialist countries speaks without exception for this theory. Their in some cases continual efforts towards the "perfection of the economic mechanism" in the last 20 years have nowhere led to clearly discernible spurts of growth, and certainly not to spectacular ones. Even the Hungarian economic reforms, which went far beyond the intentions of Gorbachev's reforms, have had very moderate, if not to say disappointing results.<sup>12</sup> A large number of the Hungarian economic indicators have developed less favourably than the CMEA average and the partial successes in Hungary, which undoubtedly do exist, are the result of reforms which are not foreseen – or only in a rudimentary form – by Gorbachev's reform programme: the broad renunciation of plan targets for the production units, the admission of private enterprises, the extensive decontrol of prices, the introduction of competitive elements and the liberalisation of foreign trade.

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<sup>9</sup> The productivity of capital in the Soviet economy was clearly falling in the seventies. Cf. Edward Böhm, Sybille Reymann: Entwicklungsprobleme der Sowjetwirtschaft an der Schwelle der achtziger Jahre, HWWA-Report No. 63, Hamburg, September 1983.

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<sup>10</sup> Almost all the socialist countries have had to make the experience that reforms (can) call forth crisis symptoms. Cf. for example Fjodor I. Kushnirsky: The Limit of Soviet Economic Reform, in: Problems of Communism, July/August 1984, pp. 33-43; George R. Feiwel: On the Economic Realities of Socialism: High Pressure Economy and Reform, in: *Economia Internazionale*, February 1979, pp. 28-47; P. G. Hare, P. T. Waleś: Polish and Hungarian Economic Reforms – A Comparison, in: *Soviet Studies*, Vol. XXXIII (1981), No. 4, pp. 491-517.

<sup>11</sup> A far-reaching price reform (including wages and interest rates) on the basis of relationships of scarcity would above all be necessary.

<sup>12</sup> Julius Struminski: Wenig Applaus nach der Budapester Reformaufführung, in: *Handelsblatt*, No. 40 of 26th February 1986, p. 14. Cf. also Paul Marer: The Future of Hungary's Economic Reform, in: *Wirtschaftsanalysen* 4/85, pp. 31-41; Marer writes (p. 31): "These economic reforms must be pushed much further if they are to yield significant and sustained improvements in performance."

Due to the interdependence of the three partial strategies, mobilisation, modernisation and reforms, the probability of the global strategy of Soviet economic policy failing is three times as great as that of the partial concepts; for if only one of them does not fulfil the expectations placed upon it the success of both the others is put in question. Thus the achievement of the medium-term modernisation objectives depends decisively on whether the short-term mobilisation impulses are enough to achieve the average growth planned for the Five Year Plan already in 1986/87. The extent to which this is not achieved will be reflected in the material conditions for the aspired rapid modernisation of the capital stock, quite apart from the psychological effects, which would then also endanger the reform policy.

The above reflections can thus be summarized in the statement that even the complete and energetic implementation of Gorbachev's mixed economic policy concept would with a high degree of probability be

unable to fulfil the expectations placed upon it by the Soviet leadership, since the means foreseen within the framework of the concept are inadequate to achieve its objectives. As we attempt to show below, it appears furthermore to be extremely doubtful that it will be possible to translate the new course into practice without friction and in its entirety.

#### **Predictable Resistance**

The dominant view in the West that under the Soviet system of government the leadership can enforce its plans autocratically does not at all reflect reality. Rather, at the head of the Party and the Government there are fractions which represent different political opinions and the interests of strong pressure groups. Among them are the conservative representatives of so-called Marxist-Leninist political economy, who regard all changes to the system with extreme mistrust, as well as the interest groups ministerial bureaucracy, economic managers and military, who exert an influence on economic policy decisions and the carrying out of economic policy

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measures. And finally, it must be taken into account that the Soviet leadership cannot demand unlimited additional efforts and sacrifices from a population which is very obviously tired of waiting for the blessings of socialism in a far distant future.

Although Soviet citizens complain about the inadequate supply of consumer goods they do not want to do without the aspects of the Soviet system which are positive for them: social security, job security, little pressure etc. It can thus be suspected that the efforts to realise an achievement-oriented socialist society via positive and negative *mobilisation incentives* will also in future meet with relatively strong resistance on the part of the population.

The realisation of the *modernisation concept* will undoubtedly not be easy where in consequence of the necessary accompanying structural changes vested rights are threatened. As long as workers have to fear the loss of their hereditary jobs, economic managers are to be obliged to take a higher degree of responsibility and the bureaucracy sees its competences threatened, it can be expected that modernisation will in every concrete case be at least difficult to carry out.

Decisive is, however, the fact that the chances of implementation of the *reform concept*, which flanks the other two partial strategies, are not exactly promising, going by experience. The influence of political economists fundamentally opposed to reform is still very great. Marxist-Leninist political economy continues to be regarded largely as sacred, so that in future those interest groups who reject particular projected reforms which collide with their own interests will be able to operate successfully against them using ideological arguments.

### Reform Experiences in Socialist Countries

Finally, all the experiences made up to now with reform projects in the socialist countries also speak for the foundering of the reform concept. Wherever in the socialist countries reforms were begun failures or at least serious set-backs were on the order of the day. In the USSR and in the GDR the attempts at reform begun in the mid-sixties came to a halt after a few years and later the status quo ante was largely restored. In Poland there is in fact clear evidence of a cycle of reform attempts and failures.<sup>13</sup> Even the Hungarian example shows how difficult it is in a socialist country to carry out genuine reforms of the economic mechanism: although in Hungary the reform decisions had been carefully

prepared over a number of years and enjoyed very wide assent the impetus of the 1968 reforms slowed down in about 1972; from 1973-78 there followed a phase of partial restauration with the annulment or watering-down of important elements of the original concept; and at the beginning of the eighties a new start was made, the implementation of which, however, again made only slow progress before in 1985 further steps were taken towards the distant goal of a "socialist market economy".

There is therefore considerable evidence that – even if the intended reform measures, or indeed measures going even further, are in fact taken, which is not very likely – the reform impetus will flag as a result of the inevitably growing opposition of politically relevant groups<sup>14</sup> and that it will not be possible to transform the Soviet economy as quickly as would be necessary in order to support the mobilisation and modernisation strategy from the institutional side.

### Conclusion

The considerations above lead to the conclusion that the USSR's economic policy programme for the next 15 years cannot fulfil the high hopes placed upon it

- because the economic policy measures which are apparently planned are inadequate to achieve the targets in full and
- because it is predictable that the concept of the means to be employed, which is itself inadequate in any case, will only be partially put into practice.

Specifically, this does not at all mean that the Soviet economy will stagnate or even collapse. The results of the new economic policy will probably be enough to keep the pressure for further reforms within limits, so that in the period in question up to the year 2000 it will scarcely come to really radical reforms of the economic system. On the other hand, the aspired, spectacular improvement in efficiency will not take place, so that the attractiveness of Soviet socialism is hardly likely to increase. Rather, it can be predicted that the Soviet economy will be faced with the same problems in the year 2000 as it is today: compared to the West relatively low productivity, technological gaps, inadequate product quality, lack of innovative dynamic, relatively high consumption of energy and materials, etc.

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<sup>13</sup> Cf. on this Ladislav Jermakowicz: Das wirtschaftliche Lenkungssystem Polens, Marburg 1985.

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<sup>14</sup> Kushnirsky's favourite explanation for the failure of earlier attempts at reform is ignored here. But of course it is certainly conceivable that the reforms will fail not only because of the resistance of opinion and interest groups, but also because the reform policies themselves will lead to economic difficulties due to their inherent contradictions, and these will force them to be taken back.