



10 DOWNING STREET

Prime Minister

Some very
interesting Telegrams,
which may be
useful if Heads of
Government have a
discussion on East/West
Commerce.

CDP 20/6

Restricted

RESTRICTED
FM MOSCOW
TO IMMEDIATE F C O
TELNO 914

OF 270615Z JUNE 87
INFO PRIORITY BONN, PARIS, WASHINGTON, UKDEL NATO
INFO ROUTINE E EUROPEAN POSTS, HELSINKI, PEKING, TOKYO
INFO ROUTINE UKDEL CSCE VIENNA

SIC EMA/EMC/EME

MODUK FOR DACU

MY TELS NO 911-913: CENTRAL COMMITTEE PLENUM: PERSONNEL CHANGES

1. THE CENTRAL COMMITTEE PLENUM WHICH ENDED TODAY 26 JUNE MADE THE FOLLOWING PERSONNEL CHANGES:

* Came
no changes
with Gorbachev
in 1984

- *
A. N N SLYUNKOV AND A N YAKOVLEV ARE PROMOTED FROM CANDIDATE TO FULL MEMBERSHIP OF THE POLITBURO.
- B. V P NIKONOV (CENTRAL COMMITTEE SECRETARY FOR AGRICULTURE) IS MADE A FULL MEMBER OF THE POLITBURO.
- C. D T YAZOV (MINISTER OF DEFENCE) IS PROMOTED FROM CANDIDATE TO FULL MEMBER OF THE CENTRAL COMMITTEE AND ELECTED A CANDIDATE MEMBER OF THE POLITBURO.
- D. S L SOKOLOV (FORMER MINISTER OF DEFENCE) IS RELEASED AS CANDIDATE MEMBER OF THE POLITBURO IN CONNEXION WITH HIS RETIREMENT.
- E. D A KUNAEV IS EXPELLED FROM THE CENTRAL COMMITTEE FOR SERIOUS SHORTCOMINGS WHEN PARTY LEADER IN KAZAKHSTAN.

2. COMMENT

OF THE THREE NEW POLITBURO MEMBERS TWO, YAKOVLEV AND NIKONOV, ARE CLOSE TO GORBACHEV AND WILL SIGNIFICANTLY STRENGTHEN HIS POSITION. THE PROMOTION OF HIS RIGHT-HAND MAN FOR IDEOLOGICAL MATTERS, YAKOVLEV, IS PARTICULARLY IMPORTANT AND SHOULD GIVE A NEW IMPETUS TO INTERNAL REFORM: IT ALSO PLACES A QUESTION MARK AGAINST THE STATUS OF LIGACHEV SINCE THEIR RESPONSIBILITIES OVERLAP.

3. SLYUNKOV, AS A SENIOR SECRETARY DEALING WITH ECONOMIC AFFAIRS, WILL HAVE ADDED WEIGHT IN OVERSEEING THE IMPLEMENTATION OF THE ECONOMIC REFORM. IT IS SIGNIFICANT THAT HE IS NOW SENIOR IN PARTY RANK TO THE CHAIRMAN OF GOSPLAN TALYZIN WHO IS REPORTED TO HAVE BEEN RESISTING GORBACHEV'S PLANS FOR RESTRUCTURING THE ECONOMIC ADMINISTRATION.

Restricted

4. NIKONOV'S PROMOTION IS UNEXPECTED SINCE HE HAD NOT APPEARED TO BE PARTICULARLY IMPRESSIVE OR INFLUENTIAL. BUT IT RESTORES THE TRADITION OF POLITBURO MEMBERSHIP FOR A PARTY SECRETARY FOR AGRICULTURE.
5. THE REPLACEMENT OF SOKOLOV AS CANDIDATE MEMBER BY YAZOV WHO RECENTLY SUCCEEDED HIM AS DEFENCE MINISTER IS ROUTINE.
6. DESPITE VERY STRONG RUMOURS OF HIS IMPENDING REMOVAL FOR REASONS OF HEALTH AND/OR CORRUPTION ALIEV REMAINS IN THE POLITBURO. HE HAS NOT MADE A PUBLIC APPEARANCE SINCE 8 MAY.
7. THE MEMBERSHIP OF THE POLITBURO HAS BEEN INCREASED FROM 11 TO 14 AND THE NUMBER OF SECRETARIES WHO ARE FULL MEMBERS OF THE POLITBURO HAS BEEN DOUBLED FROM 3 TO 6. THE BALANCE IN THE LEADERSHIP MAY NOW HAVE BEEN CRUCIALLY TIPPED IN GORBACHEV'S FAVOUR.

CARTLEDGE

YYYY

MXHPAN 1589

EAST WEST & US/SOVIET RELATIONS
LIMITED

(COPIES TO NO 10 DOWNING ST.)

SOVIET D.
DEFENCE D.
RESEARCH DEPT.
PLANNING STAFF
EED
NAD
SAD
WED
ACDD
CRD
NEWS DEPT.
INFO DEPT.
FOD(E)
POD
FED
NED
PUSD
CSCE UNIT
PROTOCOL DEPT.
ESSD

PS
PS/LORD GLENARTHER ARMS CONTROL TALKS
PS/MR MELLOR
PS/MR EGGAR
PS/PUS
SIR J. FRETWELL
CHIEF CLERK
MR BOYD
MR MUNRO
MR GILLMORE
MR RATFORD
MR FALL
MR FEARN
MR LONG
MR BRAITHWAITE
MISS PESTELL
MR WINCHESTER
MR KERR

ADDITIONAL DISTRIBUTION

-2-

Restricted

GRS 301

UNCLASSIFIED

FM MOSCOW

TO IMMEDIATE F C O

TELNO 917

OF 271115Z JUNE 87

INFO PRIORITY PARIS, BONN, WASHINGTON, UKDEL NATO, BRUSSELS, MODUK

INFO ROUTINE EAST EUROPEAN POSTS, HELSINKI, PEKING, TOKYO

INFO ROUTINE UKDEL CSCE VIENNA

SIC EMA/EMC/EME

MODUK FOR DACU

MIPT: CENTRAL COMMITTEE PLENUM: GORBACHEV'S CLOSING REMARKS

1. FOLLOWING ARE THE MAIN POINTS IN GORBACHEV'S BRIEF CLOSING SPEECH AT THE PLENUM:

- A) THE PLENUM HAD ADOPTED A PROGRAMME OF RADICAL ECONOMIC REFORM WHICH CREATED A POWERFUL AND EFFECTIVE LEVER FOR ACCELERATING PERESTROIKA.
- B) GORBACHEV EXPRESSED PARTICULAR SATISFACTION WITH THE ATMOSPHERE OF THE PLENUM, WHICH HAD REFLECTED A FURTHER DEVELOPMENT OF THE NEW SITUATION IN THE PARTY SINCE THE APRIL PLENUM AND 27TH PARTY CONGRESS.
- C) 'TODAY OUR COUNTRY IS A RAPIDLY CHANGING SOCIETY. IT IS A SOCIETY WITH NEW MOODS AND DIFFERENT HOPES'.
- D) GORBACHEV SAID THAT THERE WOULD BE NEW PROBLEMS AND QUITE A FEW COMPLICATIONS. 'WE ARE NOT GUARANTEED AGAINST MISTAKES ALTHOUGH WE MUST WORK AND ACT SO THAT THERE ARE AS FEW AS POSSIBLE. BUT STILL I AM CONVINCED THAT THE BIGGEST MISTAKE IS TO BE AFRAID OF MAKING MISTAKES'.
- E) A FUTURE PLENUM OF THE CENTRAL COMMITTEE SHOULD DISCUSS THE POLITICAL CONCEPTION OF THE 13TH FIVE YEAR PLAN, ITS MAIN STRATEGIC IDEA.
- F) THE 19TH PARTY CONFERENCE WOULD BE A MAJOR POLITICAL EVENT FOR THE PARTY AND COUNTRY. IT WOULD BE IN ESSENCE A POLITICAL EXAMINATION ON THE MAIN THEME - PERESTROIKA.

G) THE POLICY OF RADICAL RESTRUCTURING OF MANAGEMENT COINCIDED WITH THE POLICY FOR FURTHER DEMOCRATISATION NOT ONLY OF PRODUCTION, BUT ALL SOCIAL, ALL PUBLIC LIFE. 'THE PROGRESS OF THE ECONOMY AND THE DEVELOPMENT OF SOCIALIST DEMOCRATISATION ARE INSEPARABLE.

CARTLEDGE

YYYY

MXHPAN 1594

EAST WEST & US/SOVIET RELATIONS
LIMITED

(COPIES TO NO 90 DOWNING ST.)

SOVIET D.
DEFENCE D.
RESEARCH DEPT.
PLANNING STAFF
EED
NAD
SAD
WED
ACDD
CRD
NEWS DEPT.
INFO DEPT.
ECD(E)
POD
FED
NED
PUSD
CSCE UNIT
PROTOCOL DEPT.
ESSD

PS
PS/LORD GLENARTHUR ARMS CONTROL TALKS
PS/MR MELLOR
PS/MR EGGAR
PS/PUS
SIR J. FRETWELL
CHIEF CLERK
MR BOYD
MR MUNRO
MR GILLMORE
MR RATFORD
MR FALL
MR FEARN
MR LONG
MR BRAITHWAITE
MISS PESTELL
MR WINCHESTER
MR KERR

ADDITIONAL DISTRIBUTION

RESTRICTED

GRS 275

RESTRICTED
FM MOSCOW
TO IMMEDIATE F C O
TELNO 918
OF 271130Z JUNE 87

INFO PRIORITY PARIS, BONN, WASHINGTON, UKDEL NATO, BRUSSELS, MODUK
INFO ROUTINE EAST EUROPEAN POSTS, PEKING, HELSINKI, TOKYO
INFO ROUTINE UKDEL CSCE VIENNA

SIC EMA/EMC/EME

MODUK FOR DACU

MY TELS NOS 911-914 AND 916-917: CENTRAL COMMITTEE PLENUM: COMMENT

1. THIS APPEARS TO HAVE BEEN A GOOD PLENUM FOR GORBACHEV AND BETTER THAN WE HAD ANTICIPATED IN VIEW OF SIGNS THAT HE WAS ENCOUNTERING STIFF RESISTANCE IN THE RUN-UP TO IT (SEE MY TELNO 861 ON THE CENTRAL COMMITTEE ECONOMIC CONFERENCE).

2. IN THE EVENT, THE CENTRAL COMMITTEE HAS ENDORSED THE MAIN PRINCIPLES OF HIS QUICK RADICAL PROPOSALS FOR ECONOMIC REFORM, ALTHOUGH THE TIMETABLE HAS SLIPPED AND THERE IS LIKELY TO BE CONSIDERABLE FOOT-DRAGGING AHEAD, PARTICULARLY OVER THE TRANSLATION INTO PRACTICE OF HIS PLANS TO REDUCE THE POWERS OF THE CENTRAL ECONOMIC AGENCIES AND FOR PRICE REFORM AND THE INTRODUCTION OF WHOLESALE TRADE IN PRODUCER GOODS.

3. MOST IMPORTANTLY, GORBACHEV SEEMS TO HAVE ACHIEVED A BREAKTHROUGH IN CHANGING THE COMPLEXION OF THE POLITBURO. THE ELECTION OF 3 NEW FULL MEMBERS MEANS THAT 8 OF THE 14 HAVE BEEN APPOINTED SINCE HE TOOK POWER AND THE OLD GUARD IS NOW OUTNUMBERED AND VULNERABLE. MOREOVER, THE DOUBLING OF THE NUMBER OF SENIOR PARTY SECRETARIES HAS CONSIDERABLY DILUTED THE AUTHORITY OF HIS MAIN POTENTIAL RIVAL, LIGACHEV, WHO COULD PERHAPS BE MOVED ASIDE OR KICKED UPSTAIRS TO REPLACE GROMYKO AS PRESIDENT.

- 1 -
RESTRICTED

14.

RESTRICTED

4. ALL IN ALL, THIS JUNE PLENUM HAS LEFT GORBACHEV IN A STRONGER POSITION TO CARRY THROUGH POLICIES OF REFORM WHICH ARE NOW ACCEPTED AND EDNORSED BY THE PARTY ESTABLISHMENT MORE UNEQUIVOCALLY THAN BEFORE.

CARTLEDGE

YYYY

MXHPAN 1595

EAST WEST & US/SOVIET RELATIONS
LIMITED

(COPIES TO NO 10 DOWNING ST.)

SOVIET D.
DEFENCE D.
RESEARCH DEPT.
PLANNING STAFF
EED
NAD
SAD
WED
ACDD
CRD
NEWS DEPT.
INFO DEPT.
EOD(E)
POD
FED
NED
POSD
CSCE UNIT
PROTOCOL DEPT.
ESSD

ADDITIONAL DISTRIBUTION
PS
PS/LORD GLENARTHUR ARMS CONTROL TALKS
PS/MR MELLOR
PS/MR EGGAR
PS/PUS
SIR J. FRETWELL
CHIEF CLERK
MR BOYD
MR MUNRO
MR GILLMORE
MR RATFORD
MR FALL
MR FEARN
MR LONG
MR BRAITHWAITE
MISS PESTELL
MR WINCHESTER
MR KERR

-2-

RESTRICTED

GRS 1315

UNCLASSIFIED

FM MOSCOW

TO IMMEDIATE F C O

TELNO 912

OF 261330Z JUNE 87

INFO PRIORITY WASHINGTON, PARIS, BONN, UKDEL NATO, MODUK

INFO ROUTINE EAST EUROPEAN POSTS, PEKING, HELSINKI

SIC EMA/EMC/EME

MODUK FOR DACU

MIPT: CENTRAL COMMITTEE PLENUM ON ECONOMIC REFORM: GORBACHEV'S
REPORT: ECONOMIC REFORM

1. THE FOLLOWING ARE THE MAIN POINTS ON THE ECONOMY AND REFORM
PROPOSALS:

(I) GORBACHEV BLAMED MISCALCULATIONS BY GOSPLAN AND GOSSNAB FOR
THE POOR ECONOMIC PERFORMANCE AT THE BEGINNING OF THIS YEAR, AS A
RESULT OF WHICH CONSIDERABLE LOSSES HAD BEEN SUSTAINED.

(II) THE PLENUM WOULD APPROVE A DOCUMENT ON "BASIC GUIDELINES FOR
THE RADICAL RESTRUCTURING OF ECONOMIC MANAGEMENT". BY THE END OF
THE YEAR A WHOLE "PACKAGE" OF SPECIFIC DECISIONS ON REORGANISATION
WOULD BE ADOPTED AS WELL AS NEW DIRECTIVES ON THE CENTRAL PLANNING
ORGANS AND INDUSTRIAL MINISTRIES IN ORDER TO BRING THE METHODS
OF CENTRAL PLANNING INTO LINE WITH THE NEW LAW ON THE SOCIALIST
ENTERPRISE.

(III) THERE WOULD BE A TRANSITIONAL PERIOD IN THE NEXT FEW YEARS
DURING WHICH NEW AND OLD MANAGEMENT METHODS WOULD HAVE TO
COEXIST. THE TRANSFER OF ENTERPRISES TO SELF-FINANCING WOULD
OCCUR BEFORE THE INTRODUCTION OF NEW PRICES AND THE REFORM OF
THE SUPPLY SYSTEM AND FINANCIAL SYSTEM. THIS WOULD GIVE RISE TO
DIFFICULTIES AND CONTRADICTIONS.

(IV) GORBACHEV CRITICISED OBSTRUCTIVE ATTITUDES TO PRIVATE PLOTS
AND CALLED FOR THE LEASING OF ABANDONED SMALL HOLDINGS TO CITY
DWELLERS ON THE BASIS OF CONTRACTS FOR THE OUTPUT OF AGRICULTURAL
PRODUCTS.

(V) HE CALLED FOR THE EXTENSION OF THE FAMILY CONTRACT SYSTEM
AND SAID THAT FOR TOO LONG THEY HAD TRIED TO MANAGE THE ECONOMY
ON THE BASIS OF ENTHUSIASM OR BY DECREES FORGETTING PERSONAL
INTEREST AND INCENTIVES. GORBACHEV DENIED THAT FAMILY CONTRACTS
IN AGRICULTURE CONTRADICTED THE PRINCIPLES OF SOCIALISM OR
CORRUPTED WORKERS. IT WAS THE PRACTICE OF SUBSIDISING
NEGLIGENCE FROM THE BUDGET WHICH CORRUPTED FARM WORKERS.

(VI) GORBACHEV AGAIN RAISED THE STAGNATION OF THE SOVIET ECONOMY IN THE 1970S AND EARLY 1980S WHEN "ONE POSITION AFTER ANOTHER HAD BEEN CONCEDED" AND THE GAP IN EFFICIENCY, QUALITY AND TECHNOLOGICAL DEVELOPMENT WITH MOST DEVELOPED COUNTRIES HAD WIDENED. HE REFERRED TO THE "UNHEALTHY CHARACTER" OF THE DEVELOPMENT OF THE ECONOMY, THE NEGLECTED STATE OF MACHINE BUILDING AND EXHORBITANT OUTLAYS FOR BUILDING UP THE FUEL AND ENERGY BRANCHES. SPENDING ON WAGES HAD SYSTEMATICALLY EXCEEDED PLAN FIGURES WHICH MEANT THAT MONEY HAD BEEN PAID OUT WITHOUT ANY CONNECTION WITH RESULTS. THERE HAD BEEN AND REMAINED A SHORTAGE OF EVERYTHING: METAL, FUEL, CEMENT, MACHINERY AND CONSUMER GOODS "IF WE ADD TO THIS A CHRONIC SHORTAGE OF MANPOWER IT BECOMES CLEAR THAT IN SUCH CONDITIONS THE ECONOMY CANNOT DEVELOP NORMALLY".

(VII) BUT THE MOST ALARMING THING WAS THE BEGINNING OF A LAG IN SCIENTIFIC AND TECHNICAL DEVELOPMENTS AND THE ECONOMY'S "UNRESPONSIVENESS TO INNOVATIONS". THE ECONOMIC SITUATION HAD HAD AN "EXTREMELY NEGATIVE EFFECT" ON THE LIVING STANDARDS OF THE POPULATION AND ON THE DEVELOPMENT OF THE SOCIAL SPHERE.

(VIII) "THE POLITBURO CONSIDERS IT NECESSARY TO SAY ALL THIS FRANKLY ONCE AGAIN, NOT LEAST BECAUSE VOICES ARE SOMETIMES HEARD ASKING: IS EVERYTHING SO BAD, IS THERE A NEED TO SHARPEN EVALUATIONS AND IS A RADICAL RESTRUCTURING REALLY NECESSARY" ? IF SUCH SENTIMENTS PREVAILED AND CURRENT POLICY REFLECTED SUCH PRONOUNCEMENTS THIS WOULD HAVE BEEN FRAUGHT WITH EXTREMELY SERIOUS CONSEQUENCES FOR THE COUNTRY AND THE PEOPLE.

(IX) THE CHANGES WHICH HAD BEEN MADE IN THE PAST TWO YEARS HAD NOT BEEN FUNDAMENTAL OR CARDINAL ONES. THE BRAKING MECHANISM HAD NOT YET BEEN OVERCOME AND NOT REPLACED BY A MECHANISM OF ACCELERATION.

(X) GORBACHEV REFERRED TO EARLIER ATTEMPTS AT ECONOMIC REFORM IN THE 1950S, THE SECOND HALF OF THE 1960S AND IN THE LATE 1970S AND SAID THAT THOSE ATTEMPTS HAD NOT BEEN THROUGH-GOING OR PERSISTENT AND HAD ONLY HAD SHORT-LIVED EFFECTS.

(XI) GORBACHEV DENIED THAT PERESTROIKA MEANT A DEPARTURE FROM OR A WEAKENING OF THE FOUNDATIONS OF SOCIALISM. WHAT WAS PROPOSED WOULD STRENGTHEN SOCIALISM AND REMOVE WHAT WAS HOLDING BACK ITS PROGRESS. "SOCIALISM SHOULD NOT BE SEEN AS A KIND OF OSSIFIED, UNCHANGING SOCIETY.....".

(XII) GORBACHEV STRESSED THE IMPORTANCE OF DEVELOPING VARIOUS FORMS OF COOPERATIVE AND INDIVIDUAL ENTERPRISES AND CRITICISED THE RESPONSE TO DECISIONS WHICH HAD BEEN TAKEN ABOUT THIS "OFTEN PEOPLE HAVE TALKED NOT ABOUT HOW TO USE THE OPPORTUNITIES MORE QUICKLY AND EFFECTIVELY BUT HOW LEGITIMATE THESE FORMS OF ECONOMIC ACTIVITY ARE AT THIS STAGE OF SOCIALISM. SOME PEOPLE EVEN SEE COOPERATIVE AND INDIVIDUAL LABOUR AS A REVIVAL OF PRIVATE ENTERPRISE".

(XIII) GORBACHEV REFERRED TO THE FAULTS OF THE STATE ECONOMIC MECHANISM WHICH WAS GEARED TO AVERAGE OR EVEN POOR WORK 'HOW CAN THE ECONOMY MAKE PROGRESS IF IT OFFERS HOT HOUSE CONDITIONS FOR LAGGARDS, WHILE HITTING FRONT-RUNNERS ?'.

(XIV) IN FUTURE THE PLAN SHOULD BE BASED NOT ON A MULTITUDE OF DETAILED TARGETS HANDED DOWN BY SUPERIOR AGENCIES BUT ON DIRECT COMMERCIAL ORDERS PLACED BY STATE ORGANISATIONS, ENTERPRISES OPERATING ON A SELF-FINANCING BASIS ETC'. THERE SHOULD BE ENCOURAGEMENT FOR ECONOMIC COMPETITION AMONG FACTORIES TO MEET CONSUMER DEMAND. IF AN ENTERPRISE FAILED TO PAY ITS WAY QUESTIONS COULD BE RAISED OF REORGANISING IT OR LIQUIDATING IT. THIS WAS OF COURSE AN EXTREME MEASURE AND THE STATE WOULD SHOW CONCERN TO PROVIDE JOBS.

(XV) APPREHENSIONS HAVE BEEN EXPRESSED ABOUT A WEAKENING OF THE PLANNING PRINCIPLE WHICH COULD AFFECT THE BALANCE OF THE ECONOMY. BUT IT WAS AN ILLUSION TO SUPPOSE THAT EVERYTHING COULD BE FORESEEN FROM THE CENTRE WITHIN THE FRAMEWORK OF SUCH A HUGE ECONOMY.

(XVI) CONCERN HAD ALSO BEEN EXPRESSED THAT IF VOLUME TARGETS FOR ENTERPRISES WERE DISCARDED, RATES OF GROWTH IN SOME INDUSTRIES, REGIONS AND EVEN THE COUNTRY AS A WHOLE MIGHT FALL. GORBACHEV COMMENTED THAT HIGHER GROWTH THROUGH INFLATED GROSS OUTPUT AND DOUBLE COUNTING WITHOUT REAL INCREASE OF END RESULTS WAS OF NO VALUE TO SOCIETY AND EVEN CAUSED LOSSES.

(XVII) A RADICAL IMPROVEMENT OF THE PRICING SYSTEM WAS ESSENTIAL FOR A COMPLETE TRANSITION TO THE NEW ECONOMIC MECHANISM. THIS WOULD INVOLVE WHOLESALE AND RETAIL PRICES PROCUREMENT PRICES AND TARIFFS. IN VIEW OF THE POLITICAL AND SOCIAL IMPORTANCE OF THE REFORM, IT SHOULD BE DISCUSSED THROUGHOUT THE COUNTRY. THERE WOULD ALSO BE A REFORM OF THE SYSTEM OF MATERIAL AND TECHNICAL SUPPLY WHICH WOULD INVOLVE A DECISIVE TRANSITION TO WHOLESALE TRADE IN THE MEANS OF PRODUCTION.

(XVIII) GORBACHEV ALSO REFERRED TO THE NEED FOR A RADICAL REFORM OF THE FINANCE AND CREDIT SYSTEM AND STRESSED THE IMPORTANCE OF RECENT DECISIONS IN THE SPHERE OF FOREIGN ECONOMIC POLICY FOR ENHANCING THE IMPACT OF THE EXTERNAL MARKET ON THE PERFORMANCE OF SOVIET INDUSTRIES AND ENTERPRISES, ON QUALITY AND TECHNOLOGICAL PROGRESS.

(XIX) THE TRANSFER OF ENTERPRISES AND ASSOCIATIONS TO COMPLETE SELF-FINANCING SHOULD BE COMBINED WITH THE RIGHT TO LAUNCH JOINT VENTURES AND AMALGAMATIONS ON THE BASIS OF SHAREHOLDING UP TO AND INCLUDING COMPLETE MERGER IF THIS WAS ECONOMICALLY EXPEDIENT.

(XX) MINISTRIES SHOULD BE RELIEVED OF THE FUNCTIONS OF OPERATIONAL ECONOMIC MANAGEMENT AND STAFF CONCERNED WITH THIS ELIMINATED.

(XXI) GORBACHEV REFERRED TO THE SETTING UP OF 'PRODUCTION MANAGEMENT BOARDS' AT REGIONAL LEVEL TO PLAN REGIONAL DEVELOPMENT AND COORDINATE ALL LOCAL ECONOMIC ACTIVITIES.

(XXII) HE REFERRED TO THE GAP BETWEEN THE INCREASE IN THE MONEY SUPPLY AND AVAILABLE GOODS. THE AMOUNT OF MONEY IN CIRCULATION HAD GROWN 3.1 TIMES BETWEEN 1971-85 WHILE THE PRODUCTION OF CONSUMER GOODS HAD ONLY DOUBLED. THE PROVISION OF THE PEOPLE WITH FOOD, HOUSING, CONSUMER GOODS AND SERVICE WAS A FIRST PRIORITY.

(XXIII) HE CALLED FOR MAXIMUM OPENNESS IN DECISIONS ON SOCIAL AND ECONOMIC LIFE, WIDER PUBLICATION OF DRAFTS AND DECREES AND OF ECONOMIC AND SOCIAL STATISTICS.

(XXIV) GORBACHEV DESCRIBED THE MEASURES HE HAD OUTLINED AS THE MOST THOROUGH GOING AND SWEEPING REFORM OF THIS KIND DURING THE PERIOD OF BUILDING SOCIALISM.

CARTLEDGE

YYYY

MXHPAN 1581

EAST WEST & US/SOVIET RELATIONS
LIMITED

(COPIES TO NO 40 DOWNING ST.)

SOVIET D.
DEFENCE D.
RESEARCH DEPT.
PLANNING STAFF
EED
NAD
SAD
WED
ACDD
CRD
NEWS DEPT.
INFO DEPT.
FOD(E)
POD
FED
NED
PUSD
CSCE UNIT
PROTOCOL DEPT.
ESSD

PS
PS/LORD GLENARTHUR ARMS CONTROL TALKS
PS/MR MELLOR
PS/MR EGGAR
PS/PUS
~~SIR J. FRETWELL~~
CHIEF CLERK
MR BOYD
MR MUNRO
MR GILLMORE
MR RATFORD
MR FALL
MR FEARN
MR LONG
MR BRAITHWAITE
MISS PESTELL
MR WINCHESTER
MR KERR

ADDITIONAL DISTRIBUTION

PS
PS/MRS CHALKER
PS/LORD GLENWARTHUR
PS/MR MELLOR
PS/PUS
SIR J FRETWELL
MR BOYD

MR POWELL No.10 DOWNING STREET
MR D NICHOLLS DUS(P)
D. NUC (POL) SY
DACU
CDI
MOD

MR RATFORD
MR FALL
MR PEARN

HD/DEFENCE DEPT
HD/ACDD
HD/SOVIET DEPT

RESIDENT CLERK

PLEASE ADD HD/NAD IF EAST/WEST DIST

ADVANCE COPY

UNCLASSIFIED

FM MOSCOW

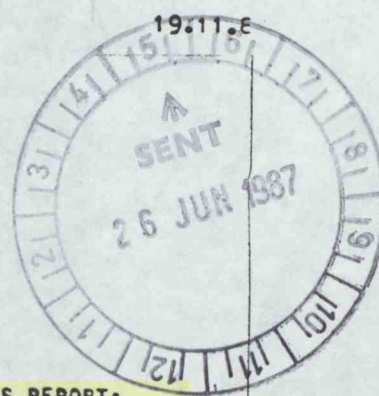
TO IMMEDIATE FCO

TELNO 911

OF 261230Z JUNE 87

INFO PRIORITY WASHINGTON, PARIS, BONN, UKDEL NATO, MODUK

INFO ROUTINE EAST EUROPEAN POSTS, PEKING, HELSINKI



CENTRAL COMMITTEE PLENUM ON ECONOMIC REFORM; GORBACHEV'S REPORT;
POLITICS OF PERESTROIKA

1. THE CPSU CENTRAL COMMITTEE PLENUM ON "RADICAL RESTRUCTURING OF ECONOMIC MANAGEMENT" OPENED ON 25 JUNE. GORBACHEV DELIVERED A MARATHON REPORT WHICH WAS ALMOST AS LONG AS HIS REPORT TO THE 27TH PARTY CONGRESS.

2. THE FOLLOWING ARE THE MAIN POINTS ON PERESTROIKA AND INTERNATIONAL POLITICAL AFFAIRS. FOR POINTS ON THE ECONOMY AND ON REFORM SEE MIFT. COMMENT FOLLOWS.

(I) THE POLITICAL SITUATION IN THE COUNTRY HAD CHANGED SUBSTANTIALLY IN THE PAST 2 YEARS. THERE WAS GROWING UNDERSTANDING THAT PERESTROIKA WAS MADE NECESSARY BY MOUNTING CONTRADICTIONS IN SOCIETY WHICH HAD BEEN ACQUIRING "PRE-CRISIS FORMS".

(II) PUBLIC OPINION WAS MAKING ITSELF FELT AND AN "EXPLOSION OF SPIRITUAL ACTIVITY" WAS AMONG THE ACHTEVEMENTS OF PERESTROIKA. PUBLIC INTEREST IN THE COUNTRY'S PAST, PRESENT AND FUTURE IN THE AFFAIRS OF SOCIETY AND STATE HAD BECOME KEENER AND SHARPER.

(III) THERE HAD BEEN SOME IMPACT ON ECONOMIC RESULTS WITH A 4.4% GROWTH IN INDUSTRIAL PRODUCTION AND A 3% GROWTH IN AGRICULTURE ON AVERAGE OVER THE PERIOD 1985-86.

(IV) THE "REVOLUTIONARY TRANSFORMATIONS" HAD BROUGHT TO THE FORE THE CONTRADICTION BETWEEN DEMANDS FOR RENEWAL, CREATIVITY AND CONSTRUCTIVE INITIATIVE AND CONSERVATISM, INERTIA AND SELFISH INTERESTS.

(V) THE SOLUTION TO THIS CONTRADICTION WAS THE EXTENSIVE DEVELOPMENT OF DEMOCRACY. "COMMAND AND ADMINISTRATIVE METHODS OF MANAGING SOCIETY PUT A BRAKE ON OUR PROGRESS. ONLY DEMOCRATIC FORMS ARE CAPABLE OF IMPARTING A POWERFUL

(V) THE SOLUTION TO THIS CONTRADICTION WAS THE EXTENSIVE DEVELOPMENT OF DEMOCRACY. "COMMAND AND ADMINISTRATIVE METHODS OF MANAGING SOCIETY PUT A BRAKE ON OUR PROGRESS. ONLY DEMOCRATIC FORMS ARE CAPABLE OF IMPARTING A POWERFUL ACCELERATION TO IT."

(VI) "WE ARE NOW ONLY ON THE FIRST WAVE OF PERESTROIKA. THIS WAVE HAS SENT RIPPLES THROUGH THE STAGNANT WATERS". DESPITE TREMENDOUS EFFORTS THE DRIVE FOR PERESTROIKA HAD FAILED TO REACH MANY LOCALITIES. WE SEE DISTINCTLY THE DIFFICULTIES WITH WHICH RESTRUCTURING IS TAKING PLACE IN PARTY, GOVERNMENT AND ECONOMIC BODIES. AND DO WE NOT FEEL NOW PAINFULLY IT IS BEING RECEIVED IN SOME CENTRAL AGENCIES.

(VII) GORBACHEV REFERRED TO AN "ALARMING TENDENCY" THAT A NUMBER OF PARTY ORGANS WERE "LAGGING BEHIND THE DOMINANT MOODS AND DYNAMIC PROCESSES IN SOCIETY". READJUSTMENT IN THE PARTY COULD NOT BE ALLOWED TO LAG BEHIND THE ECONOMIC, SOCIAL AND SPIRITUAL PROCESSES WHICH WERE TAKING PLACE. "WE CANNOT ALLOW A SITUATION WHERE CHANGES IN LIFE, IN THE MOODS OF PEOPLE, WOULD OUTPACE THE UNDERSTANDING OF THESE PROCESSES IN THE PARTY, THE MORE SO IN ITS RULING BODIES".

(VIII) "I CAN SAY THAT IN THE LEADERSHIP OF THE PARTY AND THE COUNTRY THERE IS UNITY OF VIEWS ON FUNDAMENTAL QUESTIONS OF PERESTROIKA AND ON DOMESTIC AND FOREIGN POLICY. THIS UNITY MAKES IT POSSIBLE TO ADOPT AND CONFIDENTLY IMPLEMENT DECISIONS DICTATED BY THE TIMES."

(IX) GORBACHEV SAID "SELF CRITICALLY ON BEHALF OF THE POLITBURO" THAT THERE WERE WEAKNESSES IN ITS PRACTICAL WORK. DECISIONS ON MAJOR QUESTIONS OF DEVELOPMENT WERE BEING FULFILLED SLOWLY AND INADEQUATELY. THERE HAD BEEN A PRINCIPLED AND FRANK DISCUSSION ABOUT THIS IN THE POLITBURO.

(X) GORBACHEV EMPHASISED THAT THE PARTY MUST NOT STAND ALOOF FROM THE POLITICAL GUIDANCE OF THE ECONOMY, EVEN AFTER THE NEW ECONOMIC MECHANISM WAS INTRODUCED.

(XI) HE SHARPLY CRITICISED THE ARMENIAN PARTY AND ITS FIRST SECRETARY DEMIRCHYAN FOR A COMPLACENT ATTITUDE TO PERESTROIKA IN THE REPUBLIC.

(XII) GORBACHEV REFERRED TO "EXTRAORDINARY OCCURRENCES" WHICH HAD PERIODICALLY SHOWN UP LACK OF DISCIPLINE AND ORDER SUCH AS THE LANDING OF THE CESSNA IN MOSCOW WHICH HE DESCRIBED AS "AN UNPRECEDENTED OCCURRENCE FROM ALL POINTS OF VIEW". IT HAD DEMONSTRATED THAT THE NEGATIVE TRENDS EXPOSED AT THE PARTY CONGRESS WERE STRONG AND TENACIOUS IN SOCIETY AND EVEN IN THE ARMY. GORBACHEV WENT ON TO DECLARE "ON BEHALF OF THE POLITBURO AND THE DEFENCE COUNCIL THAT THERE SHOULD BE NO DOUBT IN THE PARTY OR AMONG THE PEOPLE ABOUT THE ABILITY OF THE ARMED FORCES OF THE USSR TO DEFEND THE COUNTRY".

(XIII) GORBACHEV STATED THAT THE ATMOSPHERE OF OPENNESS WHICH HAD DEVELOPED IN THE COUNTRY SHOULD NOT ONLY BE PRESERVED BUT DEEPENED AND DEVELOPED. GLASNOST' AND DEMOCRATISATION WAS NOT A SMOOTH PROCESS AND IN SOME PLACES IT WAS EVEN PAINFUL. SOME COMRADES HAD A MISCONCEPTION AND FEAR OF DEMOCRATIC CHANGES. THE PLENUM SHOULD DISCUSS THIS IMPORTANT ISSUE AND TAKE A CLEAR AND FIRM STAND. GORBACHEV ADDED THAT DEMOCRATISATION FRIGHTENED THOSE WHO WERE AFRAID OF BEING SUBJECTED TO OPEN CONTROL BY SOCIETY.

ISSUE AND TAKE A CLEAR AND FIRM STAND. GORBACHEV ADDED THAT DEMOCRATISATION FRIGHTENED THOSE WHO WERE AFRAID OF BEING SUBJECTED TO OPEN CONTROL BY SOCIETY.

(XIV) IT WAS INEVITABLE THAT SOME PEOPLE WOULD TRY TO USE GLASNOST NOT IN THE INTERESTS OF PERESTROIKA OR THE

DEVELOPMENT OF SOCIALISM, BUT FOR ACHIEVING NARROW SELF-SERVING AIMS. SUCH PHENOMENA SHOULD BE COMBATED BUT THERE SHOULD BE NO FEAR OF DEBATES AND OF THE CONFLICT OF VIEWS AND POSITIONS. ALL THIS WAS NATURAL AND ESSENTIAL IN THE QUEST FOR TRUTH, FOR RESOLVING THE PROBLEMS THAT EMERGED AND FOR ACCELERATING PROGRESS.

(XV) GORBACHEV CRITICISED THE EXISTING "BLOATED CONTROL APPARATUS" WHICH ECONOMIC CRIMES AND ABUSES IN RECENT YEARS HAD SHOWN TO BE INEFFICIENT. HE CALLED FOR A NEW UNIFIED CONTROL SYSTEM BASED ON THE PEOPLE'S CONTROL COMMITTEES.

(XVI) GORBACHEV PROPOSED ON BEHALF OF THE POLITBURO THAT AN ALL-UNION PARTY CONFERENCE SHOULD BE CONVENED ON 26 JUNE 1988 PRECEDED BY AN ACCOUNTING AND ELECTION CAMPAIGN THROUGHOUT THE PARTY. THE CONFERENCE WOULD DISCUSS PROGRESS IN THE 5 YEAR PLAN AND FURTHER DEMOCRATISATION IN THE PARTY AND SOCIETY. GORBACHEV RECALLED THAT PREVIOUS PARTY CONFERENCES HAD INTER ALIA MADE AMENDMENTS IN THE PARTY RULES AND CHANGES IN THE CENTRAL BODIES OF THE PARTY.

3. SEE MIFT FOR MAIN POINTS ON THE ECONOMY AND REFORM.

CARTLEDGE

YYYY

MXHPAN 1580

NNNN

BY AIRMAIL 11 TO BEING RECEIVED 1. 20. 88

CONSENT AND ECONOMIC ENDORS. WAS DONE WITH BEST HOPE
ILLUSTRATED WITH ANOTHER BEING INCLUDED TO BE THE LEVEL OF
BRITISH TO BEING FROM LOCALITIES AND THE LOCALITY AND
DEPOSIT IDENTIFYING PEOPLE IN THE LOCAL AREA. THE
THIS WAS THE BEST BEING INSTEAD OF THE 20. 88
(11) THE THE THE THE THE THE THE THE THE THE THE THE

VERIFIED TO 11...
ON THE 11. 88
ALL THE THE THE THE THE THE THE THE THE THE THE

GRS 800

Restricted

RESTRICTED

FM MOSCOW

TO PRIORITY FCO

TELNO 880

OF 191120Z JUNE 87

INFO PRIORITY WASHINGTON, PARIS, BONN, UKDEL NATO,

INFO PRIORITY EAST EUROPEAN POSTS, PEKING, HELSINKI, MODUK

INFO PRIORITY TOKYO

SOVIET UNION: DEBATE ON INTERNAL REFORM

SUMMARY

1. LIBERAL SOVIET ECONOMISTS, HISTORIANS AND WRITERS ARE BECOMING INCREASINGLY OUTSPOKEN. IN A NUMBER OF RECENT ARTICLES AND STATEMENTS AT PUBLIC MEETINGS SOME OF THEM HAVE NOT JUST ATTACKED INDIVIDUAL SACRED COWS BUT HAVE BEGUN TO RAISE FUNDAMENTAL QUESTIONS ABOUT THE SYSTEM ITSELF. THE COMMON THREAD IN THESE STATEMENTS IS AN ASSAULT ON THE WHOLE STALIN PERIOD AS A DISTORTION OF LENIN'S IDEAS AND INTENTIONS ABOUT THE ECONOMIC AND POLITICAL SYSTEM.

DETAIL

2. THE MOST SIGNIFICANT RECENT STATEMENTS HAVE BEEN REPORTED IN CORRESPONDENCE WITH SOVIET DEPARTMENT. THE SALIENT POINTS HAVE BEEN:

A) THE ECONOMIST NIKOLAI SHMELYEV, IN THE JUNE ISSUE OF THE LITERARY JOURNAL "NOVI MIR", AND THE WRITER SHATROV, IN "MOSCOW NEWS" NO. 24, HAVE CALLED FOR A RETURN TO THE PRINCIPLES OF LENIN'S "NEW ECONOMIC POLICY" AND IMPLIED THAT THE SOVIET ECONOMY HAS BEEN ON THE WRONG TRACK EVER SINCE NEP WAS ABANDONED IN 1929.

B) SHMELYEV DESCRIBED THE EXISTING SOVIET ECONOMY AS LARGELY UNMANAGEABLE AND ALMOST UNPLANNABLE. HE REFERRED TO THE PRIMITIVE AND IDIOTIC CAMPAIGN AGAINST MIDDLE-MEN SEMICOLON THE ECONOMIC HARM DONE BY "PARASITIC CONFIDENCE" IN FULL EMPLOYMENT SEMICOLON PROPOSED FREE ECONOMIC ZONES TO ATTRACT FOREIGN INVESTMENT SEMICOLON AND CALLED FOR AN

[Gorbachev has since said publicly that he agreed with some of Shmelyev's criticisms.]

Restricted

/END

Restricted

END TO SUBSIDISED FOOD PRICES.

C) AN ARTICLE BY THE MOSCOW UNIVERSITY PROFESSOR G POPOV IN A POPULAR SCIENCE JOURNAL 'NAUKA I ZHIZN' CALLED FOR THE REJECTION OF THE WHOLE 'ADMINISTRATIVE SYSTEM' DEVELOPED UNDER STALIN. ANOTHER ECONOMIST, L POPKOVA (A PSEUDONYM), ARGUED IN A LETTER TO 'NOVY MIR' THAT THE SOVIET UNION HAD A GENUINE SOCIALIST PLANNED ECONOMY BUT IT DID NOT WORK VERY WELL. SHE REJECTED AS MISCONCEIVED IDEAS OF A RETURN TO NEP ON THE GROUNDS THAT AN ATTEMPT TO IMPROVE THE SOVIET ECONOMY BY INTRODUCING A MARKET MECHANISM WAS BOTH UN-LENINIST AND UNWORKABLE. THE MARKET DID WORK AND HAD A FUTURE IN CAPITALIST COUNTRIES BUT WAS INCOMPATIBLE WITH A PLANNED ECONOMY. THE CLEAR IMPLICATION OF HER ARGUMENT IS THAT THE SYSTEM IS A FAILURE.

3. AT THE FIRST PUBLIC MEETING ON 29 MAY OF A DISCUSSION CLUB NEWLY FORMED BY A GROUP OF DISTINGUISHED ACADEMICS AND JOURNALISTS THERE WERE FIERCE ATTACKS ON THE STALIN PERIOD BY THE HISTORIAN DR YURY AFANASIEV WHO SPOKE OF THE 'DEATH PANGS' OF THE STALINIST SYSTEM, AND THE PHILOSOPHER DR BUTENKO WHO REFERRED TO 'BARRACKS SOCIALISM' AND CALLED FOR THE RESTORATION OF A HUMAN FACE TO SOCIALISM. THERE WERE CALLS FROM THE FLOOR FOR STALIN TO BE DECLARED A STATE CRIMINAL AND FOR THE KGB TO BE BROUGHT UNDER CONTROL.

4. THE ECONOMIST SHMELYEV GAVE A TALK ON 10 JUNE AT A MOSCOW INSTITUTE ON THE THEME THAT IMMORALITY IS ECONOMICALLY INEFFECTIVE AND REFERRED TO THE 17 MILLION PERSONS WHO HAD BEEN THROUGH THE LABOUR CAMPS AND THE 5 MILLION PEASANT FAMILIES DEPORTED DURING COLLECTIVISATION.

COMMENT

5. THE AUTHORS OF THESE RADICAL STATEMENTS ARE NOT MAVERICKS BUT INFLUENTIAL FIGURES, SOME OF WHOM EVIDENTLY HAVE SUPPORT IN HIGH PLACES. DR AFANASIEV IS CO-CHAIRMAN OF THE DISCUSSION CLUB, WITH IT FROLOV (UNTIL RECENTLY EDITOR OF KOMMUNIST AND NOW A GORBACHEV AIDE). PROFESSOR POPOV WAS ONE

OF THE SELECT GROUP WHO SPOKE AT THE RECENT CENTRAL COMMITTEE ECONOMIC CONFERENCE CHAIRED BY GORBACHEV. SHMELYEV (A

-2-
Restricted

| FORMER

Restricted

FORMER SON-IN-LAW OF KHRUSHCHEV) IS BACKED BY THE INFLUENTIAL WRITER AND EDITOR OF 'NOVY MIR', ZALYGIN, WHO IS SAID TO BE ON CLOSE TERMS WITH MEMBERS OF THE LEADERSHIP.

6. THE OFFICIAL LINE ON THE HISTORY OF THE STALIN PERIOD AND ON ECONOMIC POLICY REMAINS CAUTIOUS AND RESERVED. THE CENTRAL COMMITTEE SECRETARY, LUKYANOV TOOK A CONSERVATIVE LINE IN A SPEECH PUBLISHED IN PRAVDA OF 16 JUNE IN WHICH HE ENDORSED COLLECTIVIZATION AND INDUSTRIALIZATION AND THE METHODS BY WHICH THEY WERE IMPLEMENTED. AT THE CENTRAL COMMITTEE ECONOMIC CONFERENCE (MYLUELNO 861) GORBACHEV APPEARED TO BE RESPONDING DEFENSIVELY TO APPREHENSIONS ABOUT HOW WIDE-RANGING THE DISCUSSION ON ECONOMIC REFORM HAD BECOME, WHEN HE INSISTED ON THE ONE HAND THAT ALL POINTS OF VIEW SHOULD BE DISCUSSED BUT ON THE OTHER THAT 'ANTI-SOCIALIST SOLUTIONISTS MUST BE REBUFFED. THERE IS NO EVIDENCE THAT HE HIMSELF WOULD ENDORSE THE MORE RADICAL VIEWS WHICH HAVE BEEN RECENTLY FORWARD. BUT HE MAY SEE ADVANTAGE IN WIDENING THE SCOPE OF THE DEBATE IN ORDER TO OPEN UP OPTIONS FOR THE LONGER TERM. HE HAS ON SEVERAL OCCASIONS RIDICULED THOSE WHO FEAR THAT RADICAL REFORMS AND FREE DEBATE MIGHT 'SHAKE THE FOUNDATIONS OF THE SYSTEM'. RECENTLY THE DEBATE HAS BEEN GETTING QUITE CLOSE TO THOSE FOUNDATIONS, AND AS I PREDICTED IN MY ANNUAL REVIEW DESPATCH, SOME PEOPLE ARE INDEED BEGINNING TO 'THINK THE UNTHINKABLE'.

CARTLEDGE
MXHPAN 1344

EAST WEST & US/SOVIET RELATIONS
LIMITED

(COPIES TO NO 10 DOWNING ST.)

SOVIET D.
DEFENCE D.
RESEARCH DEPT.
PLANNING STAFF
EED
NAD
SAD
WED
ACDD
CRD
NEWS DEPT.
INFO DEPT.
ECD(E)
POD
FED
NED
PUSD
CSCE UNIT
PROTOCOL DEPT.
ESSD

PS
PS/LORD GLENARTHUR-ARMS CONTROL TALKS
PS/MR MELLOR
PS/MR EGGAR
PS/PUS
SIR J. FRETWELL
CHIEF CLERK
MR BOYD
MR MUNRO
MR GILLMORE
MR RATFORD
MR FALL
MR FEARN
MR LONG
MR BRAITHWAITE
MISS PESTELL
MR WINCHESTER
MR KERR

ADDITIONAL DISTRIBUTION

-3-
Restricted