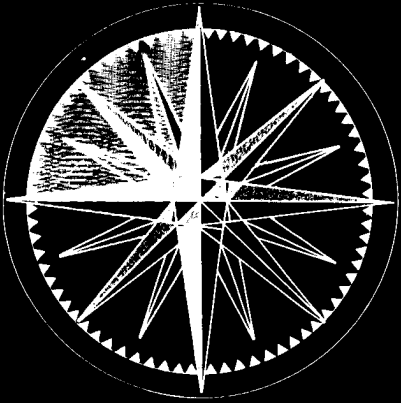


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# SPECIAL REPORT

SOVIET ECONOMIC PLAN FOR 1966-70

CENTRAL INTELLIGENCE AGENCY  
OFFICE OF RESEARCH AND REPORTS



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## SOVIET ECONOMIC PLAN FOR 1966-70

The goals of the recently announced Soviet five-year plan (1966-70) suggests that the Brezhnev-Kosygin regime is making a determined effort to regain the economic momentum of the 1950s. As calculated by CIA, the planned rate of growth for the gross national product (GNP)-- $6\frac{1}{2}$  to 7 percent a year--is comparable to the over-all growth of the 1950s and is considerably above the  $4\frac{1}{2}$ -percent average achieved between 1961 and 1965. In drawing up the plan, the new leaders have quietly scaled down the previous goals for 1970 put forward by the overly optimistic Khrushchev in 1961.

To achieve the intended acceleration in economic growth the planners are counting less on new inputs of labor and capital than on rapid increases in productivity--that is, in the efficiency with which labor and capital are used. In general, the output goals set for the next five years can be achieved provided the rates of increase in productivity of the 1950s can be resumed. A major emphasis, however, is being placed on expanding investment in agriculture, which in recent years has not been responding to increases in investment nearly so well as Soviet industry.

No major shifts are apparent in the allocation of resources among the principal claimants--defense, investment, and consumption. As before, investment is to grow at a higher rate ( $8\frac{1}{2}$  percent annually on the average) than GNP, and consumption at a lower rate ( $5\frac{1}{2}$  percent annually). Not surprisingly, specific information on plans for defense production is lacking. The general pattern of resource use proposed in the plan, however, suggests that outlays on defense are scheduled to increase at about the same rate as GNP and that defense will continue to claim about 10 percent of GNP measured in ruble prices. Similarly, the goals for total production of machinery and for civilian uses of machinery suggest that the share of machinery output allocated to military and space programs will not change appreciably.

Industry

Industrial production is scheduled to increase by 47-50 percent during 1966-70. Although the new 1970 goals for individual

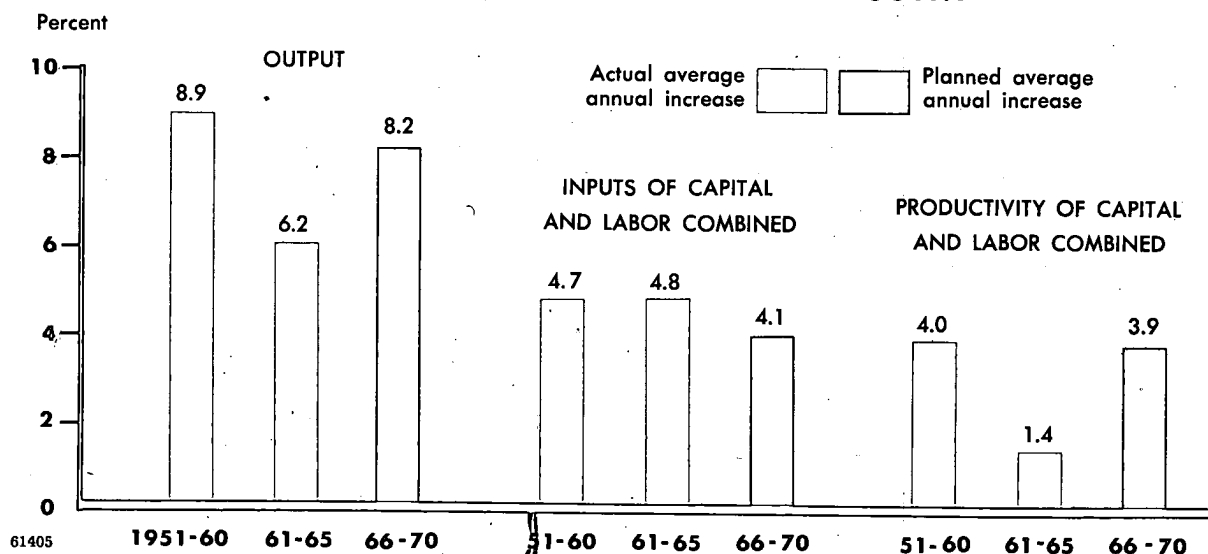
sectors of industry--particularly the chemical industry--are below those set in 1961, their achievement will require a considerable rise in the rate of increase of productivity. The plan places

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Figure 1 USSR PLANS TO REGAIN 1951-60 LEVELS OF PRODUCTIVITY OF CAPITAL AND LABOR IN INDUSTRY



special emphasis on increasing consumer-oriented output on improving the quality and assortment of metals.

The basis for the projected average annual increase of 8 to 8½ percent in industrial production is an annual 2½-percent increase in industrial employment and 9½-percent increase in plant and equipment. This means that the Soviet leadership is counting on an average annual increase of 4 percent in output per unit of labor and capital combined. During 1961-65 the average increase in productivity was only 1½ percent. As a result, the industrial growth rate fell off substantially. (See Figure 1.)

The new plan lists a variety of ways for raising produc-

tivity in industry: (1) increased use of foreign science and technology; (2) concentration on the introduction of technically advanced machines; (3) modernization and more efficient use of existing plant capacity; (4) improvement of managerial methods, standardization of products, and specialization of facilities; and (5) stepped-up incentives for managers and employees in the form of higher salaries and a more direct relation of pay levels to plant productivity. As these approaches are not new, the successful achievement of the planned goals for productivity and output depends on finding better methods of persuading enterprise managers and the ministerial bureaucracy to carry them out.

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**INDUSTRY UNDER NEW SOVIET FIVE-YEAR PLAN**

Percentage figures show average annual growth. Absolute figures are in million metric tons (MMT), thousand metric tons (TMT), billion cubic meters (BCM), and billion kilowatt-hours (BKH).

**Table 1**

**KHRUSHCHEV'S CHEMICAL GOALS ARE CUT**

	USSR		USSR		US 1965 OUTPUT (TMT)
	1965 OUTPUT (TMT)	1970 PLANNED OUTPUT		1965 OUTPUT (TMT)	
		Khrushchev's Plan (TMT) % Increase	New Plan (TMT) % Increase		
All chemical output	—	—	19	—	15
Mineral fertilizer	31,300	75,000*	19	63,500*	15
Plastics and synthetic resins	821	3,750*	35	2,200*	22
Synthetic and manmade fibers	407	1,350	27	805*	14½

\* Midpoint of range.

**Table 2**

**GOALS FOR PRODUCTION OF METALS AND ENERGY  
GENERALLY CONTINUE PAST TRENDS**

	USSR			US Output 1965
	Actual % Increase 1961-1965	Planned % Increase 1966-1970	Planned Goal* 1970	
<b>Basic metals</b>				
Crude steel	7	7	126½ MMT	119 MMT
Rolled steel	7	6½	97 MMT	85 MMT**
Aluminum	11	15	2,100 TMT	2,490 TMT
Copper	9½	10½	1,270 TMT	1,930 TMT
<b>Energy Components</b>				
Gas	23½	12½	232½ BCM	450 BCM
Oil	10½	7½	350 MMT	380 MMT
Coal	2½	3	670 MMT	476 MMT
Electric power	11½	11	845 BKH	1,220 BKH

\* 1970 goals shown at midpoint of range except aluminium and copper.

\*\* This is 1964 figure, latest available.

**Table 3**

**GROWTH IN ALLOCATIONS OF MACHINERY AND EQUIPMENT**

	Actual % Increase 1961-1965	Planned % Increase 1966-1970
Total allocations	7½	10 to 11
Investment	10½	10½
Consumer durables	7½	13
Military and space	4	8½ to 12*

\* Calculated as a residual.



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Under the new five-year plan, chemical output is scheduled to grow at almost twice the rate established for industry as a whole during 1966-70. The over-all chemical goal for 1970, however, is almost 16 percent lower than the one that Khrushchev set and the 40-percent cutback in the goals for plastics, resins, and chemical fibers reflects a realistic assessment of the problems involved in getting new capacity into operation in these areas. (See Table 1.)

The production of nonferrous metals and the concentration on the quality and assortment of ferrous metals appear to be gaining at the expense of chemical production. Aluminum output is to double, and the production of more quality finished-steel products will be stressed. This emphasis on selected metallurgical products supports Western suspicions that the poor quality of chemically derived products in the USSR is forcing it to make more extensive use of costly ferrous and nonferrous metals. (See Table 2.)

The production of primary energy is to increase at an average annual rate of  $6\frac{1}{2}$  percent during 1966-70, slightly less than during the past five years. Nevertheless, the average absolute increase in output during 1966-70 will be one-third greater than the average tonnage increase during 1961-65--enough to meet domestic requirements and to increase exports. The 1970 goal for production of natural gas is much lower than the earlier tar-

get, probably because of lower estimates of the demand for gas. By 1970 crude oil is to displace coal as the leading supplier of energy (36 percent), the share of coal will fall from 42 percent to 35 percent, and gas will account for about 20 percent of all energy produced.

Soviet machinery output is scheduled to increase by 10 to 11 percent per year, or more rapidly than industrial output as a whole. Of the five commodity groups with the highest planned growth rates, three are consumer durables (passenger cars, refrigerators, and TV sets) and two (chemical and textile equipment) are important in the production of consumer goods. The five next most rapidly growing commodity groups include agricultural machinery, tractors, and trucks.

A comparison of the planned output of machinery in 1970 with the goals for investment in equipment and with the planned increase in production of consumer durables suggests that the allocation of machinery for military and space purposes could grow at more than twice the relatively low rate estimated for 1961-65. Nevertheless, the share of machinery output devoted to the military-space effort should remain about the same, as civilian uses will grow at approximately the same rate as total output of machinery. Average annual rate of growth in allocations of machinery and equipment to investment, consumer durables, and the defense and space effort during 1961-65 and 1966-80 are compared in Table 3.

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The agricultural goals appear ambitious both in output expectations and input plans. The planned average annual rate of increase in gross farm output of  $5\frac{1}{2}$  percent is nearly three times that achieved during the first half of the decade and clearly depends on fulfilling the goals for allocating increased resources to the farm sector. The phrasing used in the plan is: "Between 1966 and 1970, there is to be a 25-percent increase in the average annual volume of output of agricultural products, compared with the average annual production...in the preceding five-year plan period." CIA's estimate of a  $5\frac{1}{2}$ -percent average rate of growth was obtained by calculating the rate of growth necessary in 1966-70 to exceed total output in 1961-65 by 25 percent.

The regime's 1966-70 goals for investment and production of farm machinery, first announced a year ago, have been reaffirmed in the plan directives. Investments are to total 71 billion rubles during the 1966-70 period, almost double that achieved in the preceding five years, and a large share of these funds are to be expended on rapid increases in acquisitions of farm machinery. Planned deliveries of tractors and grain combines during 1966-70 are to be 60 percent above the previous five-year period; deliveries of trucks are to triple. (See Table 4.)

Khrushchev's target of 70 million tons of fertilizer to be delivered to the farms in 1970 has been reduced to a more realistic 55-million metric tons. This goal, however, will require a doubling of deliveries by 1970. The new plan also cuts back Khrushchev's goal for a 50-percent expansion of irrigated acreage to a more reasonable 25 to 30 percent.

The implied output goals for meat and milk are relatively conservative, especially when compared to those previously adopted by the Khrushchev regime (see Table 5). Success in reaching these targets, however, as well as achieving the over-all agricultural output goal is heavily dependent on achieving the projected growth in grain output.

The new plan implies an average grain harvest of 138 million tons during 1966-70, 32 million tons greater than the average harvest for 1961-65; an annual grain harvest of this magnitude would probably assure attainment of the meat and milk targets, restore self-sufficiency in food grains, and enable the USSR to resume its role as a major exporter of grain. Following the poor 1963 harvest, the USSR imported 12 million tons of Western grain, and, again, following the mediocre 1965 harvest, imports of 9 million tons were arranged. Each million tons imported costs the USSR approximately \$65 million in scarce foreign exchange.

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**AGRICULTURE UNDER NEW SOVIET FIVE-YEAR PLAN**

Table 4

**RESOURCES ALLOCATED TO AGRICULTURE  
SCHEDULED TO RISE SHARPLY**

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	<b>Actual 1951-65</b>	<b>Planned 1966-70</b>
Gross fixed investment	<i>6</i>	
Billion rubles	37	71
Average annual percentage increase	12½	14½
Increase in drained area		
Million acres	7	15 to 16
Increase in irrigated area		
Million acres	3½	6 to 7½
Deliveries of machinery (Thousands)		
Tractors	1,092	1,790
Grain combines	384	550
Trucks	378	1,100
Use of mineral fertilizer		
Average annual percentage increase	19	15½
Use of electric power		
Average annual percentage increase	16	23

Table 5

**MEAT AND MILK PRODUCTION  
( MILLION METRIC TONS )**

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	<b>USSR</b>			<b>US</b>
	<b>Actual 1965 Production</b>	<b>Planned 1970 Khrushchev's Plan</b>	<b>Production New Plan</b>	<b>Actual 1965 Production</b>
Meat	9½	20 to 25	12 to 13	29
Milk	72½	115 to 135	85 to 90	113½

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The bulk of the increase in grain production is planned to result from higher yields since there is little likelihood of a large increase in sown acreage. The expansion in acreage from reclamation and irrigation will probably be offset by a decline in the sown area in marginal grain areas if planned crop rotations are instituted. While there is no assurance that the planned increase of 30 percent in grain production can be achieved, the plans for boosting output are impressive. This is particularly true for the northwestern part of European Russia where precipitation is adequate and soil additives of fertilizer and lime would quickly raise yields.

Investment

The total stock of plant and equipment is to grow at about 10½ percent, the same high average annual rate that has prevailed since 1950. This growth is to be supported, however, by higher rates of increase in investment than in 1961-65, when extensive repair of industrial plant and equipment was used as a stopgap measure to defer retirements.

Important shifts are to occur in the composition of capital stock during 1966-70 as an increasing share of investment

in plant and equipment is allocated to agriculture (see Figure 2). At the same time that the growth of plant and equipment in agriculture is to accelerate, the growth of industrial plant and equipment is to slow down, partly because of higher retirement rates (see Table 6). This development could have serious long-term consequences for over-all growth of the economy, because production in industry historically has responded much better to increases in plant and equipment than has production in agriculture.

The stark situation in agriculture, however, has necessitated this further shift away from other sectors of the economy in the planned allocation of investment in 1966-70. Although the rate of growth of investment in agriculture far outpaced all other sectors of the economy during 1961-65, gross agricultural production responded with an average annual increase of only about 2 percent. Clearly the efficiency of capital in Soviet agriculture is among the lowest in the major nations of the world. Whereas 7 percent of total investment is allocated to agriculture in the US, the share in the USSR has risen from 14 percent in 1960 to 19 percent in 1965, and it is estimated that this figure is planned to be about 25 percent in 1970.

Investment in housing and services (excluding transport and

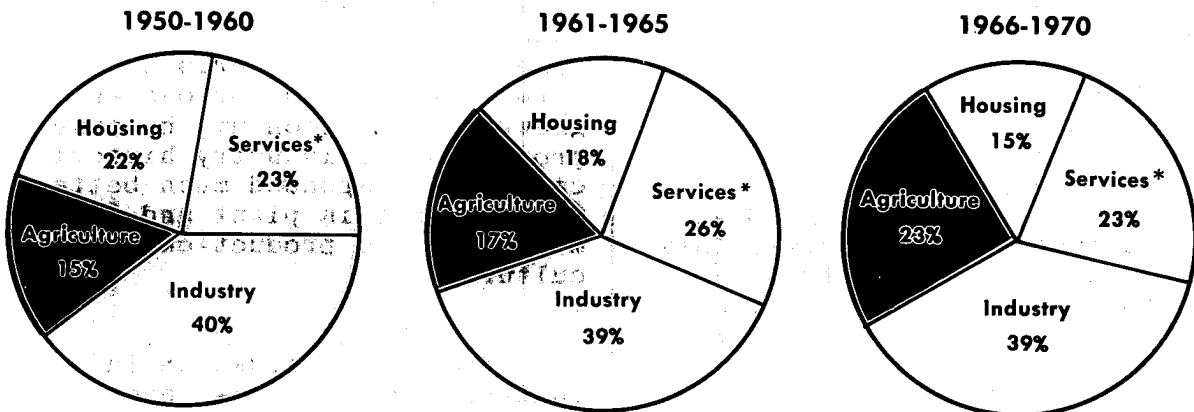
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**INVESTMENT UNDER NEW SOVIET FIVE-YEAR PLAN**

Figure 2

*FURTHER SHIFT OF INVESTMENT TO AGRICULTURE SCHEDULED FOR 1966-70*



\* Including transport and communications

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Table 6

**CONTINUED HIGH RATE OF GROWTH IN TOTAL PLANT AND EQUIPMENT MARKED BY EMPHASIS ON AGRICULTURAL SECTOR**

AVERAGE ANNUAL PERCENTAGE RATE OF GROWTH

	Actual 1951-1960	Actual 1961-1965	Plan 1966-1970
Investment in new plant and equipment	11½	8	10
Industry	12	7	8
Agriculture	12	12½	14½
Total stock of plant and equipment	10½	10½	10½
Industry	11½	11	9
Agriculture	12	11½	13

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communications) is to increase about five percent per year during 1966-70, well above the one-percent average annual rate registered during 1961-65. The new rate, however, will still lag far behind investment in new plants and equipment. The projected annual rate of increase of seven percent in housing investment in 1966-70 results from the fact that construction of new housing has shown a general decline since 1959 and consequently is projected from a low base in 1965. The total volume of investment in housing and services during 1966-70 is planned to be only about 18 percent more than in 1961-65.

Higher Incomes

Real income per member of the working population is planned to increase at an average annual rate of  $5\frac{1}{2}$  percent during the plan period, compared to the four-percent annual increase achieved during 1961-65. Most of this growth will result from higher wages, with about one-fifth of the rise planned to come from an average annual increase of six percent in per capita expenditures by the state for pensions, grants, education, and health services. A smaller share is to come from the continued policy of selective price cuts. (See Table 7.)

The average wage of non-farm workers is to increase  $3\frac{1}{2}$  percent annually, approximately the same rate as achieved in

1961-65, largely as a result of across-the-board increases in bonus payments as enterprises convert to the new system of economic management. In contrast, wage rates in recent years were increased in conjunction with the implementation of wage reforms and were of particular benefit to workers in the lowest pay categories.

The average wage paid by collective farms is to be raised six to seven percent annually through 1970. The new leadership is striving to break the collective farms' cycle of low economic incentive and low production by raising the incomes of collective farmers not only in absolute terms but in relation to incomes of nonfarm workers. But even raising peasant incomes by 40 percent will bring them up only from 50 percent of non-farm workers' incomes in 1965 to approximately 60 percent in 1970. Services to rural areas in the form of libraries, child-care facilities, and medical services are to be emphasized during the plan period. However, collective farmers still will not enjoy equal footing with state workers in matters of pensions and other social benefits.

The Brezhnev-Kosygin leadership is making an effort to raise living standards but has been forced to ignore some of Khrushchev's expansive promises for 1970. Unmentioned in the new plan are former pledges to:

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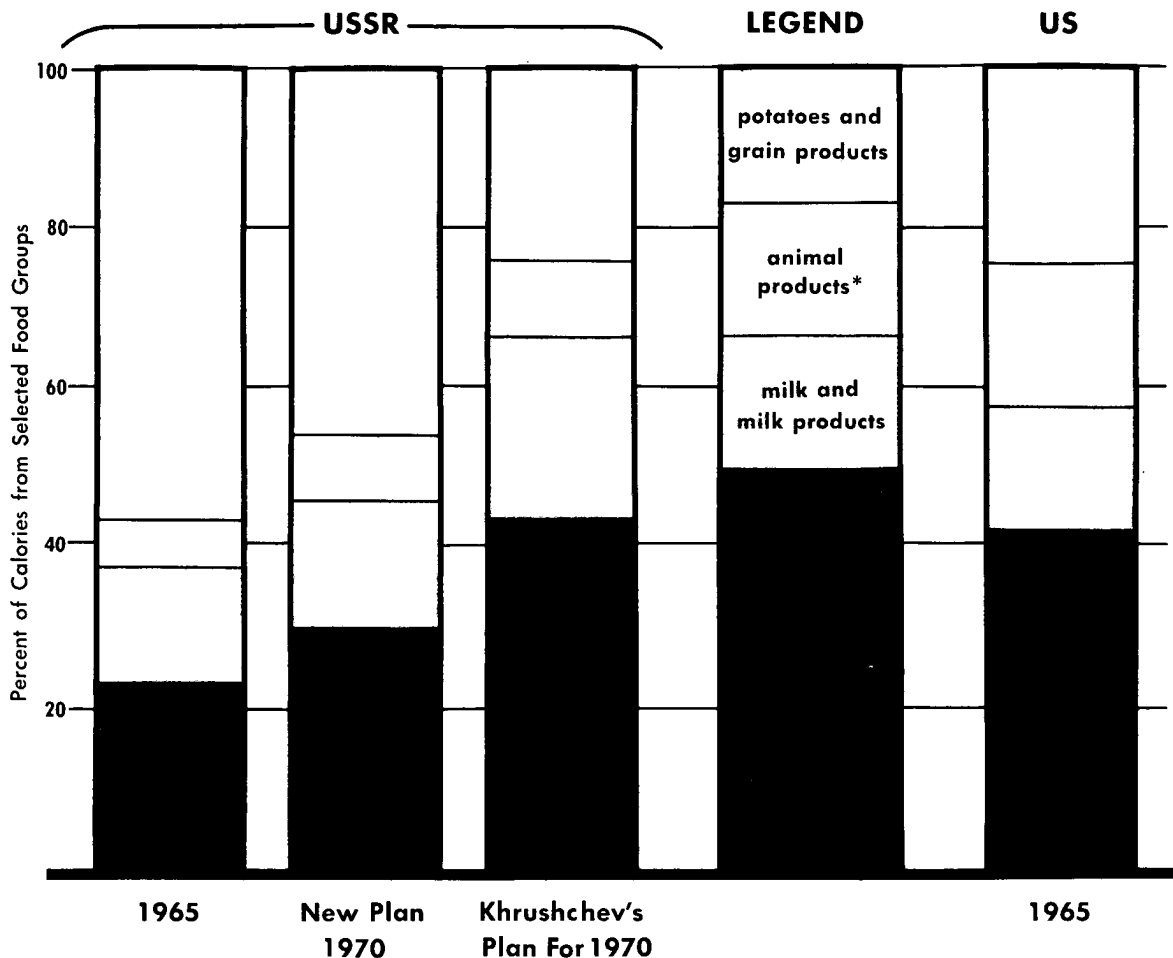
**LIVING STANDARDS UNDER NEW SOVIET FIVE-YEAR PLAN**

Table 7 **MODERATE BOOST PLANNED IN CONSUMER WELFARE**  
**AVERAGE ANNUAL PERCENTAGE RATE OF INCREASE PER CAPITA**

	Actual 1961-65	Plan 1966-70
Real income per worker	4	5½
Nonfarm wages*	3½	3½
Public consumption funds**	6	6
Total consumption	3	4½
Food	2½	4
Durable goods	5½	10
Housing space	2½	2

\* Wages paid to workers in state-owned enterprises, of which 10 percent are employed in agriculture.  
 \*\* Public consumption funds finance such items as pensions, stipends, leave pay, education, and medical services.

Figure 3 **MARKED IMPROVEMENT PLANNED IN QUALITY OF DIET**



\* Excludes milk.  
 \*\* Excludes butter.  
 \*\*\* Includes fruit and vegetables, eggs, nuts, and other quality foods.



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(1) Reduce the length of the work week from 41 to 35 hours without reducing wages. The inability to meet labor productivity goals in the past caused planners to postpone adoption of what would have been the world's shortest work week.

(2) Abolish the income tax on the earnings of state workers. Failure to carry out this promise will cost workers about 10 billion rubles annually during 1966-70.

(3) Raise the minimum wage from 40 to 50 rubles a month. Last year the regime claimed that the average monthly wage for workers and employees amounted to 95 rubles.

### Plans for Consumption

The primary consumption goals are to increase the quality and quantity of food and manufactured goods reaching the people and to narrow the gap between urban and rural levels of living. Per capita consumption is to increase slightly more than four percent per year, compared to less than three percent during 1961-65. Continual references to quality improvement in the plan indicate the regime recognizes that low quality of consumer goods is a sore point with the populace.

Per capita consumption of food items is to increase about four percent annually in value

terms through a shift to a higher quality diet. By 1970, the share of calories obtained from potatoes and grain products is to drop from its present 57 percent to about 46 percent (see Figure 3). Per capita consumption of meat is to increase by 25 percent, fruit by 45-50 percent, and vegetables by 35-40 percent.

Only a few goals have been specified for the production of durable consumer goods. In contrast to policy under Khrushchev, the production of passenger cars is to increase at an average annual rate of 30 percent, to a level of about 750,000 in 1970; attainment of this goal is not possible without foreign assistance--as exemplified by the agreement-in-principle with Fiat of Italy. The output of other consumer durables such as refrigerators, radios, and furniture will be increased substantially. Even if these goals are met, supplies of these goods will remain considerably below those in the US on a per capita basis.

Sales of cloth and clothing are to increase by 40 percent, knitwear by 90 percent. Emphasis will be on the production of lines of fabric and clothing that are in relatively great demand, quality is to be stressed, and special efforts are proposed to improve their supply in rural areas.

The most serious problem affecting the consumer in recent years has been the supply of housing. The seven-year plan for

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housing was underfulfilled by more than 30 percent. The shortfall in completions last year was greater than in 1964 despite promises by the leadership to spur dwelling construction. The 1966-70 goal for state and individually financed housing is nevertheless for about 25 percent more than was constructed during 1961-65. If the government is willing to commit sufficient resources, the goals can be met, increasing living space from the present 72 square feet per capita to <sup>77 1/2</sup>~~221~~ (as compared with approximately 215 square feet in the industrialized countries of Western Europe).

Although the government has been willing to encourage private activity in agriculture, it has not yet attempted to solve the housing problem by specifically encouraging private building. The 1966-70 plan for private house construction calls for a total of 15 percent less space than was built during 1961-65. The promised improvement in variety and quality of construction materials for sale to the public appears to be intended only to slow the decline of recent years.

The new plan calls for a marked increase in service and trade facilities in rural levels of living. The volume of domestic services, which is to increase by 2.5 times for the country as a whole, is to increase by three times in rural areas, and the supply of electric power for home use is to increase by three times in rural areas as against 1.6 times for the entire country.

### Changing Pattern in Education

During 1966-70 the USSR plans to slow down the growth of enrollment at higher educational institutions while accelerating the growth of enrollment at secondary specialized schools (tekhnikums). This shift apparently reflects the USSR's intention, first announced in 1963, to increase the ratio of technicians to engineers in the economy in order to reduce the subprofessional workload being handled by its professional personnel. The planned slowdown in the growth of college enrollments should affect primarily the part-time programs, which for several years have been criticized publicly for the inferior quality of their graduates. [redacted] 25X1

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