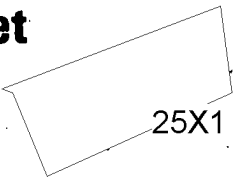


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DIRECTORATE OF  
INTELLIGENCE

# Intelligence Memorandum

*Soviet Economic Performance in 1968  
and the Outlook for 1969*

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March 1969

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CENTRAL INTELLIGENCE AGENCY  
Directorate of Intelligence  
March 1969

INTELLIGENCE MEMORANDUM

Soviet Economic Performance in 1968  
and the Outlook for 1969

Summary

The Soviet economy grew at a moderate pace in 1968, but performance of the various sectors was quite uneven. Gross national product (GNP) rose by an estimated 5½ percent, slightly below the average of the annual rates achieved during 1966-67 (see Figure 1). Although agricultural output reached a record level for the fifth year in a row, industrial production registered the lowest annual rate of growth since 1964. In general, the distribution of output among the principal end uses continued the trend established in 1966-67 of favoring the military and the consumer. As shown in Figure 1, outlays for consumption and defense in 1968 once again increased at annual rates higher than those of 1961-65. Total investment also grew faster. However, the fastest growing part of investment is in sectors supplying goods and services directly to the consumer.

Soviet industrial growth fell from 7 percent in 1966-67 to 6 percent in 1968, reflecting the continuation of lower rates of growth of industrial investment and increased inefficiency in the use of labor and capital. The drop in growth was evident in practically all sectors of industry, with the notable exception of the machinery sector -- the source of producer and consumer durables and of military equipment. The rate of increase in industrial materials dropped sharply, and the rate of

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growth in the production of consumer nondurables was down moderately. Industrial investment increased at about the low rate of 1967, and the backlog of unfinished construction increased by nearly 15 percent. The rate of growth in labor productivity in both industry and construction fell sharply. The new incentives provided by the economic reform, which now affects enterprises accounting for more than 70 percent of all industrial production, have yet to pay off in significant gains in efficiency.

Agricultural output rose 4 percent, thanks largely to a bumper grain crop estimated at 135 million tons and to record production of potatoes and sugar beets. The increase in livestock products, however, was the lowest in several years, mainly because of insufficient supplies of feed in the socialized sector and a decline in output from the private sector. The large grain harvest will enable the USSR in 1969 to meet domestic demand for high-quality bread, to increase grain reserves, and to export grain. The striking success in boosting farm output in 1966-68, however, has contributed to a weakened priority for the development of agriculture. Although total investment in agriculture increased moderately in 1968, the rate of growth dropped in the delivery of mineral fertilizer, tractors, and trucks to the farms.

The consumer experienced another substantial increase in living standards in 1968, although the increase was smaller than in the fiftieth anniversary year, 1967. More appliances, clothing, and quality foods were available, but a sharp rise in money incomes widened the gap between supply and demand for consumer goods, services, and housing, and savings deposits increased by about 20 percent. These latent inflationary pressures were reflected in moderately rising prices in the collective farm market, the only organized free market in the USSR.

GNP will probably increase somewhat more slowly in 1969 than in 1966-68 -- perhaps at about 5 percent, assuming average weather conditions for agriculture. Current plans show no upsurge in the growth of resource allocations either to industry or to agriculture in 1969. Judging from the results thus far, the timid economic reforms

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will not bring about the improvement in economic management that is critical for raising the rate of growth of productivity.

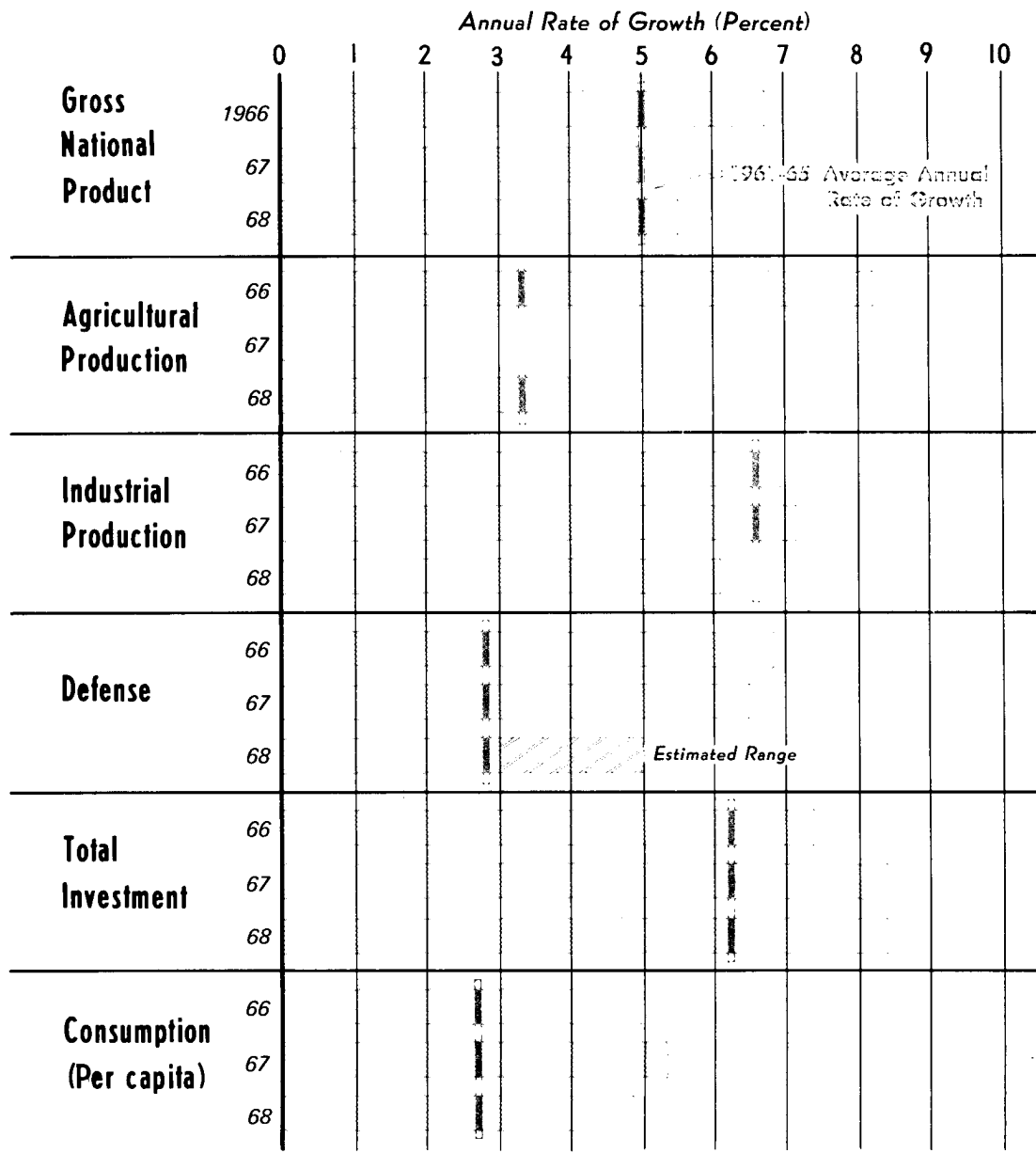
With respect to the allocation of resources, the trends of the past several years seem likely to continue in 1969. Defense and consumption probably will again be favored; there is no indication of a planned resurgence in growth-oriented investment. Comparison of the goals for output of civilian machinery with those for total machinery indicates that another increase in expenditures for military equipment seems to be planned. The regime's intention to continue the recent high rates of improvement in consumer welfare is indicated by the rise of 5½ percent planned for per capita real income. A large boost in money incomes -- 11 billion rubles -- is scheduled to be matched by an equal rise in consumer goods and services. As often in the past, however, this matching may not in fact take place, thus intensifying the existing inflationary pressures.

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Figure 1

### USSR: SELECTED INDICATORS OF ECONOMIC PERFORMANCE



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General Trends in 1968

1. The Soviet economy expanded at a moderate pace in 1968. GNP rose 5½ percent in real terms, compared with an average annual increase of nearly 6 percent during 1966-67 (see Table 1). In all of the major sectors the rates of growth were below those of 1966-67 but, with the notable exception of industry, were well above the rates achieved in 1961-65. The rate of growth of industrial production was the lowest posted since 1964.

2. The allocation of output among the principal end uses (consumption, investment, and defense) in 1968 continued to some degree the policies of 1966-67, which favored the military and consumer at the expense of growth-oriented investment. The growth of outlays for both consumption and defense, while less rapid in 1968 than in 1966-67, still was well above that in 1961-65. Although the rate of growth of total investment remained at the relatively high level of 1967, the fragmentary data available suggest that the share of consumer-oriented investment rose more rapidly than that of producer-oriented investment as in 1966-67.\* The swing in favor of consumption that has been in progress since 1965 was designed to compensate for the neglect of housing, services, and consumer goods production during 1961-64, when relatively greater emphasis was placed on the growth of investment in the producer-oriented sectors of the economy (especially heavy industry, transportation, and communications).

3. The chronic problems and inefficiencies in the management of investment programs continued in 1968 and in some respects apparently grew worse. As illustrated in Table 2, gross additions of new fixed capital and the rate of growth in labor productivity in construction fell sharply. In addition, the backlog of unfinished construction increased by nearly 15 percent. The recurrent campaigns launched during the year to reduce, or at least to stabilize, the vast amount of capital tied up in uncompleted investment projects

\* *Consumer-oriented investment includes investment in agriculture, light and food industry, housing, and services.*

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(equal in value to 80 percent of the total 1968 investment program) came to naught, as have similar campaigns in the past.

Table 1

USSR: Indicators of Economic Growth  
1961-68

	Average Annual Rates of Growth (Percent)		
	<u>1961-65</u>	<u>1966-67</u>	<u>1968</u>
Gross national product	5.0	5.8	5.5
Producing sectors			
Agricultural sector <u>a/</u>	3.4	4.6	4.0
Nonagricultural sectors	6.0	6.5	6.0
Industry	6.6	7.1	6.1
Other	5.5	6.1	6.0
Principal end uses			
Consumption (per capita)	2.8	5.1	4.8
Investment	6.3	7.9	8.4
Producer-oriented	7.3	5.2	N.A.
Consumer-oriented <u>b/</u>	5.6	10.0	N.A.
Defense	2.9	6.6	3 to 5

*a. This measure of agricultural output excludes intra-agricultural use of farm products but does not make an adjustment for purchases by agriculture from other sectors. Net output, or value added in agriculture, grew by an average of 2.4 percent a year in 1961-65 and 3.7 percent a year in 1966-67 and in 1968.*

*b. Consumer-oriented investment comprises investment in agriculture, light and food industry, housing, and services.*

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Table 2

USSR: Indicators of Capital Formation  
1961-68

	<u>Average Annual Rates of Growth (Percent)</u>			
	<u>1961-65</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>
Gross additions of new fixed capital a/	6.5	7.1	8.8	6.0
Backlog of unfinished construction b/	6.7	9.8	10.0	14.5 c/
Labor productivity in construction	5.2	5.1	6.5	4.0

a. Gross additions of new fixed capital differs from gross fixed investment in that it is supposed to count only those investment projects which were completed.

b. Some equipment installed in unfinished plants is included in this category.

c. Estimated.

Agriculture

4. Agricultural output rose 4 percent in 1968, the fifth year of increase in a row. Output in the five years 1964-68 averaged more than one-fifth above the level of 1959-63, when production nearly stagnated. The relatively good performance of Soviet agriculture in 1968 was highlighted by an estimated increase of 5 percent in crop production. Livestock production, however, was up only 2½ percent (see Table 3).

5. The increase in total crops was due mainly to a bumper grain harvest and record outputs of potatoes and sugar beets. The grain crop amounting to 135 million tons was the second largest in history, ranking next to the record crop of 140 million tons harvested in 1966. The government purchased 69 million tons of grain from producers of the 1968 crop; one-fifth above average annual procurements in 1965-67. As a result, supplies of grain will be ample to meet domestic needs for high-quality bread supplies in 1969. They will, moreover, enable the USSR to export grain for the

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Table 3

USSR: Production of Major Crops  
and Livestock Products  
1965-68

	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>
	Annual Rates of Growth (Percent)			
Crops	-6	12	3	5
Livestock products <u>a/</u>	16½	7	6	2½
	Million Metric Tons			
Major crops and live- stock products <u>b/</u>				
Grain	100	140	122	135
Potatoes	88.7	87.9	95.5	101.6
Sugar beets	72.3	74.0	87.1	93.6
Cotton	5.7	6.0	6.0	6.0
Vegetables	17.6	17.9	20.5	18.5
Meat	8.8	9.5	10.1	10.2
Milk	68.2	71.4	75.1	77.2
Eggs (billion)	29.1	31.7	33.9	35.5

*a. Excluding changes in inventories of herds.*

*b. Estimates of production are lower than official claims for grain, meat, and milk.*

second year in succession and to increase grain reserves. Reserve stocks of grain at the end of the current consumption year (31 July 1969) will probably be on the order of 20 million to 25 million tons, equal to about one-half of the annual consumption of grain for food. Thus the USSR is in a relatively good position to withstand a moderate decline in grain production in 1969 -- for example, to between 115 million and 120 million tons --without having to import grain.

6. Relatively large crops were obtained in 1968, even though weather and growing conditions were not uniformly favorable. Moisture conditions for crops in some major regions were sub-normal, but above-normal conditions prevailed in

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other areas. On balance, weather was slightly more favorable in 1968 than in 1967 and thus contributed to boosts in yields per acre of most crops; other contributing factors were continued improvements in tillage practices and the use of better plant varieties and soil additives (fertilizer and lime).

7. In contrast to the large increase in output of crops, the tonnage of major livestock products produced in 1968 increased at less than half the rate achieved in 1966-67. Meat production increased only 1 percent and milk output rose less than 3 percent. Livestock output was hampered in part by a decline in farm supplies of feed carried over from the preceding harvest, by relatively poor grazing conditions during the spring months in areas affected by drought, and by the moderate reduction in hog numbers on collective and state farms that occurred in 1967. The most important factor in the sharp slowdown in the growth of livestock production, however, was the absolute decline in output in the private sector. One of the first -- and certainly the most popular -- acts of the Brezhnev-Kosygin leadership in 1965 was to relax Khrushchev's restrictions on private farming. In 1965 -- the first year in which the more lenient policy was in operation -- private livestock holdings spurred by 13 percent, and in 1966 the private sector contributed more than two-fifths of the total output of livestock products. After 1966, however, the size of private herds declined and by the end of 1968 had returned to a level only 5 percent above that of 1964. The reason for this phenomenon is not apparent.

8. In conjunction with other factors, the striking success in boosting overall farm output in 1966-68 apparently has led to a serious weakening of the commitment in the 1965 Brezhnev program to accelerate development of agriculture. The allocation to agriculture of machinery, fertilizer, and other industrially produced materials in 1968 either continued at unimpressive rates of growth or declined. Although the rate of growth of total agricultural investment increased a little in 1968, most of the increase represented construction activities, since the rates of growth in deliveries of tractors and trucks to farms fell sharply (see Table 4). The

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Table 4

USSR: Planned and Actual Flow  
of Resources to Agriculture  
1966-70

	1966-67 <u>Actual</u>	1968		1966-70 <u>Plan</u>
		<u>Plan</u>	<u>Actual</u>	
Average Annual Rates of Growth (Percent)				
Machinery deliveries				
Tractors	9½	7	1½	13½
Trucks	37	12½	-½	41
Other agricultural machinery	3	9	6	13
Mineral fertilizer deliveries	11½	4½	8	15
Million Acres per Year				
Land reclamation <u>a/</u>	2.7	2.8	2.6	4.4 <u>b/</u>

*a. Gross addition to irrigated and drained area.*

*b. The 1966-70 plan specified gross addition of 21 million to 23 million acres for the plan period.*

The supply of mineral fertilizer increased in 1968, but its rate of growth was the lowest since 1961. And again in 1968, little or no progress was made toward the goal of expanding the stock of reclaimed (irrigated and drained) land. Annual gross additions to both irrigated and drained land remained at about the 1966-67 level and, cumulatively for the years 1966 through 1968, are only slightly over one-third of the target for the 1966-70 period. The actual stock of reclaimed land has remained unchanged because of the withdrawal from use of land previously reclaimed. Its average quality, however, is now higher.

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Industry

9. Soviet industrial growth slowed in 1968 (see Table 5). This slowdown was largely attributable to a sharp drop-off in the rate of growth of output in the industrial materials sector. Growth of output in the machinery and nondurable consumer goods sectors continued at rates roughly approximating those achieved in 1966-67, but higher than those for 1961-65. Total output of the machinery sector -- the source of producers' equipment, military equipment, and consumer durables -- increased by 8½ percent in 1968, continuing to grow significantly faster than either of the other sectors (see Figure 2).

Table 5

USSR: Growth in Industrial Production  
1961-68

	Average Annual Rates of Growth (Percent)			
	<u>1961-65</u>	<u>1966</u>	<u>1967</u>	1968 (Preliminary)
<i>Industrial production</i>	6.6	6.9	7.2	6.1
Industrial materials	7.0	6.7	6.9	4.9
Fuels and power	6.7	5.1	5.4	4.3
Metals	8.1	8.9	7.8	5.4
Forest products and paper	3.9	3.0	6.5	4.2
Construction materials	8.1	9.9	8.0	3.6
Chemicals	10.9	9.0	9.5	8.7
Machinery	7.1	8.5	8.2	8.5
Nondurable consumer goods	4.8	5.1	6.3	5.3
Soft goods	3.2	7.4	6.7	5.7
Processed foods	6.7	2.6	5.8	4.8

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10. The various major branches of industry expanded at widely different rates in 1968, and the rates of growth of many important industrial products fell off (see Table 6). The growth of industrial materials as a whole dropped sharply in 1968. Coal production failed to increase as the USSR continued to concentrate on modernizing producing facilities rather than on increasing current production. Although production of crude oil and natural gas grew by 7 percent, this rate was significantly below the rates posted in 1966-67. In ferrous metallurgy, the rate of growth for output of pig iron sagged and the rates for crude steel and rolled steel dropped off sharply from 1966-67 levels. Moreover, plans to improve the assortment of steel products, largely through expanded production of flat rolled steel, remained well behind schedule. The lack of the engineering experience needed to move ahead in cold rolling of steel, combined with delays in completing new capacity, is continuing to prevent a more economical use of the huge volume of crude steel (107 million metric tons in 1968) available. Growth of output of construction materials -- a key factor in Soviet investment programs -- also dropped sharply in 1968.

11. The record of production of consumer non-durable goods was marked by mediocre performance in soft goods as well as in processed foods. The increase in output of processed foods was held down by a sharp drop in the growth of production of industrially processed meat and vegetable oil, especially in the second half of the year. Stagnation of output of these two basic food commodities reflected a leveling off in the flows of raw materials from agriculture. In soft goods, the output of leather footwear increased at a somewhat slower pace than in 1966-67. Reflecting the steady shift away from home-sewn clothing, the output of sewn garments increased by 15 percent, somewhat more rapidly than in 1966-67.

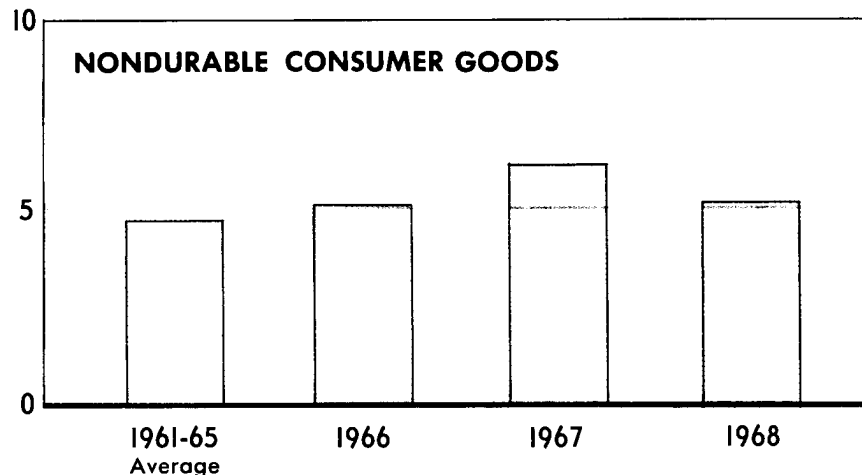
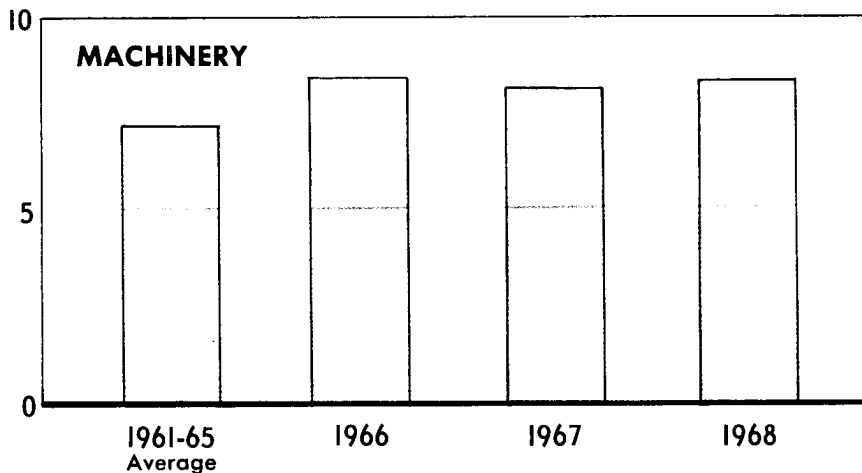
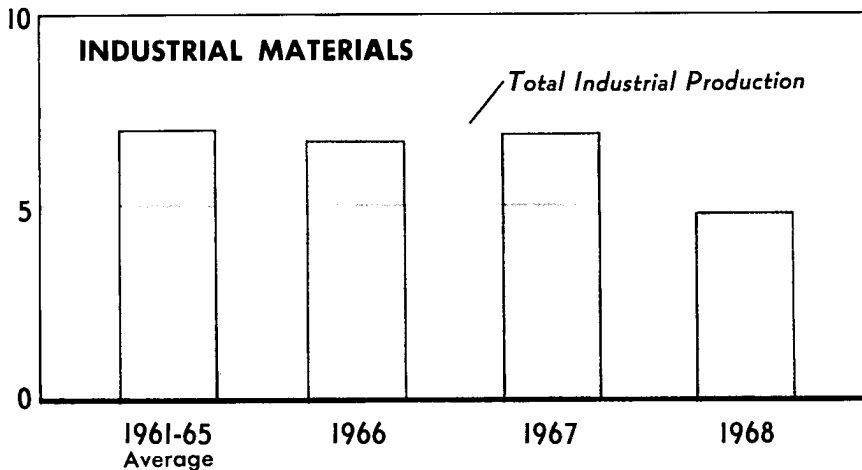
12. The slowdown in overall industrial growth in 1968 was the result of a drop in the growth of inputs of labor and capital as well as of the efficiency with which they were used. Productivity growth in 1968 was slightly below the low average of 1961-65. The near collapse of productivity

Figure 2

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# USSR: GROWTH IN MAJOR SECTORS OF INDUSTRIAL PRODUCTION

Annual Rate of Growth (Percent)



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Table 6

USSR: Recent Growth of Output  
of Important Products of Industry  
1966-68 and Plan for 1966-70

## Average Annual Rates of Growth (Percent)

	<u>1966-67</u>	<u>1968</u>	<u>1966-70 Plan <sup>a/</sup></u>
Fuels and power			
Coal	1.5	-0.2	3.0
Crude oil	8.9	7.3	7.6
Gas	10.9	7.4	12.4
Electric power	7.7	8.6	10.6
Ferrous ores and metals			
Iron ore	4.7	5.2	7.9
Pig iron	6.3	5.3	7.6
Crude steel	6.0	4.2	6.8
Rolled steel	7.4	4.0	6.5
Other basic materials			
Commercial timber	2.4	-0.4	1.2
Cement	8.2	3.2	7.2
Machinery			
Trucks	7.3	9.3	10.5
Chemical equipment	5.4	4.0	16.0

a. *Midpoint of range.*

growth in those years was a main reason for the launching of an economic reform by the Brezhnev-Kosygin leadership. Despite the fact that by the end of 1968 over 70 percent of industrial output was produced by enterprises working under the reform, annual productivity gains in Soviet industry in 1966-68 were still less than half as large as in the 1950's (see Figure 3). The economic reform has yet to prove its worth, and the prospects of its doing so are most unpromising.

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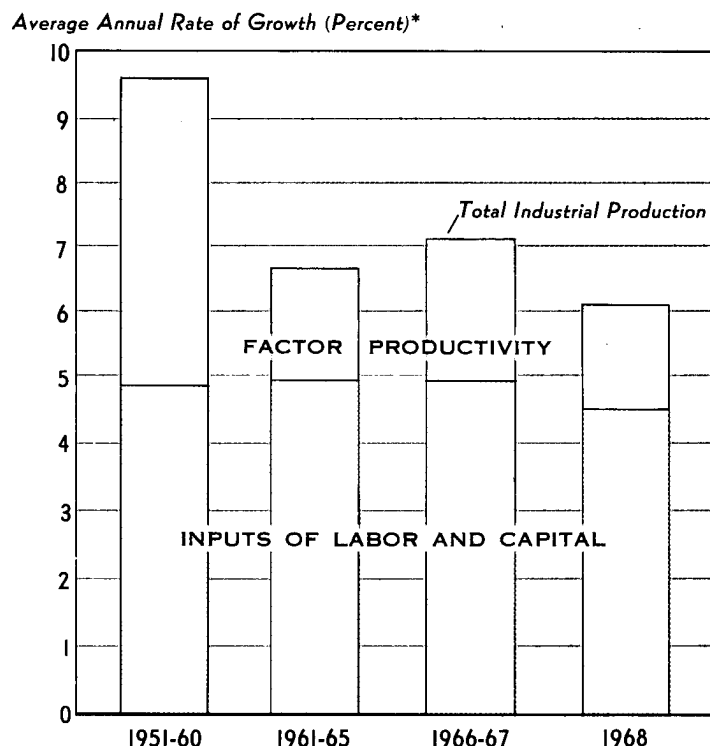
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Figure 3

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### USSR: FACTORS CONTRIBUTING TO THE GROWTH OF INDUSTRIAL PRODUCTION



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\*Ratio scale

13. A notable development -- and a harbinger of problems for future industrial growth -- was the continuation in 1968 of the slackening off in the addition of new production capacities in many branches of industry (see Table 7). The decreases from 1966-67 levels were particularly notable in coal, oil and gas pipelines, rolled steel, chemical fibers, and -- interestingly enough -- motor vehicles. Despite much fanfare and several decrees

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about expanding capacities in the light and food industries, meat and milk plants are being built at the unspectacular rates of the early 1960's. Capacities to produce shoes, on the other hand, have increased spectacularly, perhaps because the regime would like to stop spending scarce foreign exchange to import them from the West. Some of the slowdown in additions of new plants, as well as their distribution among industries, apparently represents cutbacks in investment and shifts in priorities. Another major factor is the apparent worsening of the chronic problems of construction in the Soviet economy, resulting in abnormally long construction times compared with experience in the West and with the Soviet government's own established norms.

14. During the 1960's, when annual productivity gains in industry fell far below those of the 1950's, the USSR directed more and more resources to civilian research and development. In 1951-60 outlays for civilian research and development averaged nearly \$1.5 billion a year; in the next eight years, 1961-68, outlays soared to an average of \$3 billion a year. To the extent that the rate of growth in productivity reflects the rate of innovation or technical progress, the Soviet leadership could well wonder at the contrast between the behavior of productivity and the size of expenditures on research and development.

#### Consumer Welfare

15. The upward trend of recent years in the level of living of the Soviet population continued during 1968. According to Soviet data, real income per capita (which includes wages, farm incomes-in-kind, and payments from the state budget) rose slightly more than 6 percent, about the same rate as in 1966-67 (see Table 8). Per capita consumption of goods and services, however, rose by slightly less than the 5 percent average annual rate of the preceding two years. Some letdown in the rate of growth of consumption was anticipated after an all-out effort by the regime in 1967, occasioned by the fiftieth anniversary jubilee year celebration, to give the consumer a better shake. As in the past several years, consumers continued to salt away much of their excess purchasing power in saving banks. For the third

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Table 7

USSR: Gross Additions of New Capacity a/  
1961-68

	Unit	1961-65 Average	1966	1967	1968 <u>b/</u>
Electric power stations	Million kilowatts	9.6	10	9.6	10.5
Coal	Million tons	16	20.6	19.6	12.5
Mainline and branch gas pipeline	Thousand kilometers	4.4	5.3	5.2	3.4
Mainline oil and product pipelines	Thousand kilometers	2.4	1.4	2.9	1.0
Steel	Million tons	3.1	5.1	1.4	1.4
Rolled ferrous metal (finished)	Million tons	1.8	4.8	2.7	0.7
Cement	Million tons	5.6	3.9	2.3	2.8
Cellulose	Thousand tons	266	533	381	343
Mineral fertilizers	Million tons	4.7	3.4	3.3	5
Chemical fibers	Thousand tons	44	47	15	15.4
Motor vehicles	Thousand	31.3	66.7	57.8	43
Turbines	Thousand kilowatts per year	618	760	967	710
Looms (assemblies)	Thousand	10.5	12.7	9	11
Leather footwear	Million pairs	11	14	22	55
Granulated sugar	Thousand quintals of processed sugarbeet per day	236	248	155	110
Meat	Tons per shift	1,000	800	500	268
Whole milk products	Thousand tons of milk per shift	2.5	1.6	3.1	2.0

*a. Capacities commissioned.**b. Preliminary.*

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- 16 -

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Table 8

USSR: Indicators of Changes in Consumer Welfare  
1961-68

<u>Average Annual Rates of Growth (Percent)</u>				
	<u>1961-65</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>
Per capita real income <u>a/</u>	3.6	6.0	5.8	6.1
Factors affecting the growth of real income				
Average earnings of wage and salary workers <u>a/</u>				
Public consumption funds <u>a/ b/</u>	3.6	3.8	4.2	7.5
	8.7	8.9	8.9	11
Per capita consumption	2.8	4.9	5.3	4.8
Food	2.0	3.7	4.0	3.3
Soft goods	1.4	6.0	7.8	6.2
Durable goods	8.0	9.7	9.3	7.0

*a. Soviet official data.*

*b. Including the financing of items such as pensions, stipends, leave pay, education, and medical services.*

year in a row, savings deposits rose by 20 percent. The rise in 1968, 5½ billion rubles, was equivalent to approximately 40 percent of the increase in personal income. At the end of 1968, total deposits amounted to one-fifth of that year's level of personal income, compared with one-eighth in 1960.

16. The excess purchasing power was also reflected in rising prices in the collective farm market, the only organized free market in the USSR. Prices for perishable foods in Moscow collective farm markets were up 8½ percent in the last half of 1968, compared with the corresponding period in 1967. Average earnings of wage and salary workers rose by 7½ percent in 1968, compared with 4 percent in 1967. The main reason for the sharp rise in money wages during 1968 was

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the implementation of a wage reform that raised wage rates substantially for 1.5 million machine tool operators, increased the general minimum wage by 50 percent (from 40 to 60 rubles a month), and reintroduced longevity payments for workers in remote regions. The accelerated growth of public consumption funds was in large measure a result of pension reforms that provide broader coverage and higher benefits.

17. The rates of improvement in per capita consumption differed considerably among the various categories. Per capita consumption of food, which comprises over half of personal consumption in the USSR, increased by nearly 3½ percent in 1968. As a result of the boost in farm supplies of meat and milk in 1967 and early 1968, the quality of the diet improved. In contrast, the rate of growth of per capita consumption of soft goods fell from nearly 8 percent in 1967 -- the fiftieth anniversary of the Bolshevik Revolution -- to slightly over 6 percent in 1968, while the rate for consumer durables fell from 9½ percent to 7 percent. As in 1967, imports of consumer goods from both Eastern and Western Europe -- largely readymade clothing and shoes -- helped to compensate for inadequate domestic production and provided goods of higher quality. The slower expansion of sales of consumer durables -- notably refrigerators and washing machines -- reflected a fall-off in growth of production of some of these goods.

18. Improvement in housing conditions continued to be minuscule. Housing completions in 1968 were below those in 1967. These, however, permitted a 3-percent increase in the stock of available housing and made possible a slight increase in per capita living space, to 76 square feet -- still far short of the official standard the Soviet authorities themselves have set as a minimum for health and decency (97 square feet per capita).

19. In 1968, consumers also reaped some benefits from the accelerated efforts in the past several years to modernize the grossly inadequate domestic trade network, to expand educational and child care facilities, and to construct public buildings and municipal facilities to meet the needs of

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growing urbanization. Even more welcome to consumers, perhaps, was the substantial expansion (17 percent) in the supply of state-provided "everyday" services (ranging from barber shops and public baths to shoe and clothing repair and cleaning). The backlog of needs in all of these long-neglected areas of personal and communal services is still enormous, however.

Outlook for 1969

20. Present indications are that the Soviet economy will grow somewhat more slowly in 1969 than in 1966-68, perhaps at about 5 percent. A critical factor, as always, will be the weather conditions for agriculture. Even with average weather, agricultural output probably will grow less rapidly than in 1968 because of the small increases in allocations of machinery, fertilizer, and other industrial inputs to the farms that are in prospect. In industry, the rate of growth could drop below that of 1968. The Soviet plan goal -- an increase of 7.3 percent -- is one of the lowest on record. The 1968 plan was underfulfilled by a wide margin (8.2 percent planned as opposed to 6.1 percent actual). Indications are that the rate of growth of industrial plant and equipment will be less in 1969, and manhours are likely to grow at the rates of the past several years. An upsurge in industrial growth, therefore, would require an upsurge in productivity. The factors that would bring this about in 1969 are not apparent.

21. Available information concerning economic plans for 1969 indicates a continuation of the general trends of the past several years. In the distribution of resources, defense and consumption probably will again be favored; there is no indication of a planned resurgence in growth-oriented investment. Comparison of the goals for output of civilian machinery with those for total machinery indicates that another increase in expenditures for military equipment seems to be planned.

22. The regime's intention to continue recent high rates of improvement in consumer welfare is reflected in the planned rise of 5½ percent in per capita real income. A large boost in money

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incomes -- 11 billion rubles -- is scheduled to be matched by an equal rise in consumer goods and services. As often in the past, however, the actual expansion of output of consumer goods and services may not match the expansion of money incomes, and the inflationary pressures already present in the economy may be intensified. In particular, the growth in the supply of quality foods in the first half of 1969 may slow substantially as a result of the stagnation in the production of meat and milk in the second half of 1968.

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