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DIRECTORATE OF
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Intelligence Report

*Trends In Official Policy Toward Private Activity
In The USSR*

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ER IR 70-9
March 1970

Copy No.

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
March 1970

INTELLIGENCE REPORT

Trends In Official Policy Toward Private Activity In The USSR

Introduction

Official attitudes toward private economic activity in the USSR have fluctuated since the earliest days of Soviet power. Periodic campaigns to suppress private activity alternate with periods of relaxation. The turning points in official policy appear to be related to changes in rates of economic progress and to the intensity of the regime's concern about progress in the socialized sector. For example, in the post-Stalin era, periods of relatively rapid growth of output in socialized agriculture have been closely followed by official efforts to suppress private agricultural activity. Conversely, periods of flagging rates of growth in the socialized sector seem to be associated with an easing of constraints in the private sector. In this context, vacillations in official policy apparently reflect a conflict between the ideology of central planning and the pragmatic desire for more output.

The Soviet government permits private economic activity in three areas, all strictly controlled: (1) the production and marketing of agricultural products, (2) the construction of privately owned family residences, and (3) the provision of some professional, repair, and personal services. Illegal forms of private activity do exist, moreover. Some types, such as black market sale of clothing or use of private

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automobiles as taxis, have little or no impact on the economy. Other types of illegal activity, particularly thefts of building materials and of agricultural products, reportedly are widespread and may have a substantial economic impact. But lack of data precludes meaningful discussion of illegal activity in quantitative economic terms.

This report deals only with private activity sanctioned by the government. Subject to this limitation, it (1) estimates the contribution of private activity to gross national product (GNP) and to several of its components over time, (2) reviews trends in official policy toward private activity since Stalin's death in early 1953, and (3) defines the current policies toward this sector.

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CONFIDENTIALBackgroundOutput of the Private Sector as a Share of GNP
and Its Components

1. The share of Soviet gross national product generated by the private sector has been declining since 1950. In that year, private activity contributed about 22% of GNP. The share had dropped to about 12% by 1965 and approximated 10% in 1968, measured in constant prices (see Figure 1 and the Appendix). The decline between 1950 and the late 1960's

**USSR: Share of Private Sector
in Selected Activities, 1968**

Figure 1

Percent of Total

GNP *

10	90
Agricultural Output	
31	69
Housing Completions	
32	68
Services	
5	95

 Private Sector

 Socialized Sector

* In terms of value added (see appendix).

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25X1

in the proportion of GNP attributable to the private sector, however, reflects the relatively more rapid rate of advancement in socialized activity, not an absolute drop in output in the private sector.

2. On the other hand, the proportion of GNP generated by the private sector understates the

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importance of this range of activities, which directly affect the quality of life in the Soviet Union. Although private activity in agriculture currently generates only about 8% of GNP, it accounts for 31% of net agricultural production. But its importance cannot be measured by share of production alone. Because of the antiquated and remarkably inefficient state-operated system for processing and marketing perishable foodstuffs, the state-provided supplies of foodstuffs are noteworthy for their low quality and spotty availability. Soviet consumers, therefore, rely either on their own plots or on direct purchases from private producers for a major share of their consumption of quality vegetables, meat, dairy products, and other highly perishable produce. Private activity in housing generates about 2% of GNP yet provides about one-third of the new housing constructed each year. It is particularly important in smaller cities, towns, and rural areas. Privately supplied services are the least important in a quantitative sense, generating less than one-half of 1% of GNP and probably supplying less than 5% of all services. Nevertheless, privately supplied services are uniquely capable of fulfilling specific needs in the economy -- especially in small towns and rural areas -- in the same way as private activity in agriculture and housing. In this sense, private activity in each sector provides goods and services that might otherwise be unavailable. The relative contribution of each of the three components to the total output of goods and services generated in the private sector is shown in Figure 2. As suggested by the data above, agriculture dominates, contributing more than three-fourths of the value added to GNP by private activity.

Agriculture

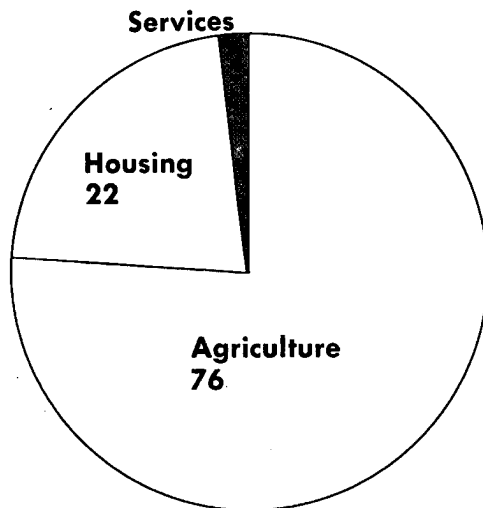
3. There are two aspects to private activity in agriculture: (a) production of farm products from individually allocated plots of land and privately owned livestock and (b) marketing of agricultural products received from personal production or in-kind distribution as payment for work in the socialized sector.

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and Services to Gross National Product
Originating in the Private Sector, 1968**

Figure 2

Percent of Total



25X1

4. Private agricultural production as practiced in the USSR is almost exclusively made up of small holdings of land -- "victory garden" size up to 0.5 hectares -- frequently combined with one or two head of livestock and a small flock of poultry. The maximum size and allocation of such holdings is strictly controlled by statutes. In rural areas a holding is allocated to a household whose head is principally engaged either in work on a collective or state farm or in some nonfarming pursuit such as teaching. In urban areas, small garden plots are assigned to households by various administrative means and are, for the most part, maintained in clusters in the outlying suburbs. In the past, a small and declining share of land was held by individual peasants (that is, peasants who were not connected with any type of socialized enterprise). This element had almost disappeared by 1950. According to the 1959 census, individual peasants comprised only 0.3% of the total population, and by 1965, as a social class, individual peasants were virtually nonexistent.

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5. As would be expected from the small size of holdings allocated to households, production activity in the private sector concentrates on those crops and livestock products that provide a relatively high value of output per unit of land. Such high-value, labor-intensive crops and livestock products as potatoes, vegetables, fruit, meat, milk, and eggs dominate the list (see Table 1). The relatively large share of total crop output accounted for by the private sector -- about one-fourth -- is grown on an area of 8.1 million hectares, or less than 4% of the area under crops for the country as a whole. Accordingly, the value of output per unit of land is nearly 9 times the value of output per unit of land in the socialized sector. More than half of this differential in output per hectare reflects the difference in composition of crops grown by the two sectors, while the remaining portion of the difference reflects the higher yields obtained by the private sector compared with those obtained by collective and state farms. In the most recent three-year period for which data are available (1966-68), yields in the private sector for potatoes and fruit were about 50% above average yields in the socialized sector and those of vegetables were about one-third greater. Much of the difference in yields between the two sectors is attributable to the application of a larger quantity and higher quality of labor by private producers in carrying out such agronomic practices as weeding, watering, and pest control. In addition, the private operators apply relatively more fertilizer and other soil additives in comparison with the large socialized enterprises and, in the case of potatoes and vegetables, sow a higher density of plants per unit of land.

6. The private sector also has access to other acreage. Besides the 8.6 million hectares directly under the control of households,* the private sector

* *The area under direct control comprises the sown area previously mentioned, 8.1 million hectares, plus wild haylands directly allocated to the private sector.*

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Table 1

USSR: Shares of Output of Selected Farm
Commodities Produced by the Private and
Socialized Sectors
1968

<u>Commodity</u>	<u>Percent</u>	
	<u>Sectors</u>	
	<u>Private</u>	<u>Socialized</u>
Crops	24	76
Potatoes	62	38
Vegetables	41	59
Fruit	34	66
Grain	2	98
Technical crops	1	99
Livestock products	38	62
Milk	38	62
Meat	38	62
Eggs	60	40
Wool	20	80
Net farm output	31	69

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is able to obtain access to certain land that is controlled by the socialized sector, for purposes of pasturing privately owned livestock and harvesting hay -- roughly 103 million hectares of pasture and 29 million hectares of hayland.* If all of the area in the socialized sector that directly or indirectly produces feedstuffs for the private sector is added to the relatively small area directly held by households, the total area given over to supporting private farming comes to roughly 140 million hectares, or about 23% of all the arable land in the USSR. In addition, feedstuffs (grain, straw, silage, hay) may be received as payment-in-kind for participating in work on collective or state farms. Theft or "misappropriation" of feedstuffs is also practiced. Overall, about 70% of total feed (in terms of feed units) used by the private sector for feeding livestock is supplied by the socialized sector.

7. According to the annual census of 1 January 1970, private holdings of livestock represent about one-fourth of the total livestock inventory of the country. But the relative importance of privately held herds is not adequately reflected by the proportion of animals held at the beginning of a calendar year. In contrast to socialized farms -- where the success indicator from year to year is to record a higher number of animals regardless of age or condition -- the prudent private owner deliberately minimizes the number of livestock carried through the winter. In other words, the private producer typically gears his livestock breeding program to minimize holdings during the winter when maintenance costs are relatively high. He then seeks to maximize holdings during the spring-summer-early fall period, when pasture and other types of fodder are accessible and when production costs per unit of milk and meat are

* An unknown proportion of the hay crop used by the private sector for feeding livestock is obtained as partial payment for participating in the hay harvest on collective and state farms. For example, many socialized agricultural enterprises permit the work force participating in the annual hay harvest to retain 10% of the hay cut; the balance goes to feeding herds on collective and state farms.

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relatively low. In addition to expanding their holdings in midyear as the result of offspring from their own livestock, households in the private sector supplement their holdings by purchases of young stock from collective and state farms (for example, pigs from the spring farrowing). Thus, if a complete census of livestock holdings were taken during the summer, private holdings of livestock expressed as a share of total holdings would be considerably larger. It is this difference in the composition of herds belonging to the socialized and private sectors that enables the private sector in agriculture to provide such a large share of the meat supply -- nearly 40% of the total.

8. Private activity in marketing is centered in the system of so-called collective farm markets. These markets are maintained and administered by the local authorities in all towns, and anyone may sell produce there. The produce sold in the collective farm markets is generally of a relatively high quality, and prices, which are largely determined by supply and demand, are usually higher than the fixed prices found in state stores. The collective farm markets are important not only because they provide a supplemental source of cash income to sellers but also because they represent an important source of supply for urban residents. In 1968, although food sales on these markets only accounted for 5% of total retail sales of food, they played a significant role in supplying the population with various items that are in short supply in state stores -- perishable foods such as eggs (20% of all retail sales), meat (10%), and milk (10%). Even larger proportions of retail sales of fruits and vegetables are sold on the collective farm markets.

Housing

9. Like private agriculture, the building of homes by individuals is ideologically unpalatable to the Soviet leadership because it fosters habits of private ownership and is often the basis of speculation. From the point of view of planners, however, the willingness of individuals to construct their own housing must be very appealing; the planners would like to relieve

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the strain on state-owned resources by permitting the building of private housing. From the point of view of individuals, privately built housing provides an opportunity to avoid the lengthy waiting periods associated with access to new state-built housing and provides a degree of privacy that is impossible to obtain in state housing.*

10. A large but declining share of the total stock of housing -- roughly 55% in 1968 -- is privately owned. Most of this is located in rural areas, where 80% of the total stock is held by individuals. In urban areas the share is about one-third. Moreover, the proportion held by individuals is declining more rapidly in urban areas as substantial numbers of old privately built houses are slowly being replaced by state-built housing.** In 1968, investment in privately built housing amounted to less than 16% of total investment in housing. In terms of new housing completions, the private sector in 1968 supplied about one-third, or 33 million square meters, of all housing built.

11. Most private housing is built in rural areas or on the outskirts of smaller towns where there are few competing needs for land, and the local governing authorities are permitted to allocate plots for this purpose. Privately built housing in both urban and rural locales is characteristically of a crude type of construction and of a simple, rectangular, single-story design. The labor used in construction is unskilled, much of the materials used are more than likely rejects from state building projects, and utilities are generally lacking. This is particularly

* Land is national property, but the Soviet Constitution provides that a citizen may build or buy a dwelling for purposes of occupancy by himself and his family. He is, however, expressly forbidden to use or dispose of the dwelling for monetary gain.

** A number of regulations provide for monetary compensation to the individual who loses his home this way. He must also be provided with either new housing or a place to build a house.

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true in rural areas, where the same designs and structure types prevail as in prerevolutionary times.* Limits on size are specified; for single-family residences, the size must not exceed 60 square meters.** Nor can size exceed 60 square meters per family if several families build a multiple-unit dwelling. The sources of financing a new dwelling typically include the joint use of private savings and state loans.

Services

12. Private activity in the services sector covers a broad and nebulous range of occupations including (a) professional services such as those of doctors, dentists, music teachers, and language teachers; (b) repair services such as repair of shoes, electrical appliances, musical instruments, and housing; (c) personal services such as barbering, hairdressing, and sewing; and (d) handicrafts such as the making of boots, gold working, and embroidery. In addition, there is a "grey" area of activity that is without specific sanction -- not lawful but apparently tolerated as needed. Included in this area are such activities as repair and maintenance of bicycles, motorcycles, and automobiles; house painting; moving furniture; and delivery of goods.

13. Privately supplied repair services are more common in rural areas because of the virtual absence of state-owned repair facilities. In urban areas such services are gradually being supplied by large service enterprises. Privately supplied professional services, on the other hand, are more in demand in areas of population and income concentration.

* Private housing being built today is described as "just like grandfather's except that it has electricity."

** A house this size is equivalent to about 645 square feet, or a one-story building 20 by 32 feet. Given an average family size of four, the per capita living space involved would come to about 121 square feet, or about 60% above the average per capita living space for all urban residents.

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14. Lack of data permits only the crudest estimate of the extent, the number, and the value of privately supplied services. But indirect evidence suggests that this sector's overall economic importance, in a quantitative sense, is negligible. The importance of these services derives more from their impact on levels of living and comfort. The private sector is generally reputed to supply better quality service than the large state-operated enterprises.

Policy Trends, 1953 to the End of the Khrushchev Era in 1964

Agriculture

15. An important element of the agrarian policy of the immediate post-Stalin leadership was the adoption of a more tolerant attitude toward private farming.* In breaking with the repressive policies of the past, the new regime reduced the money tax and the forced delivery quotas of commodities levied against the private plot, encouraged the household acquisition of livestock by extending credits for purchase of cows and by directing local authorities to provide support through the sale of young stock and feed from the socialized sector, and lowered barriers to use of public lands for pasturage and for the acquisition of hay.

16. As a result of these and other measures, sown acreage in plots expanded by 5% and livestock holdings increased by 21% from 1953 to 1956. In 1956, total output -- aided by favorable growing conditions -- exceeded 1953 by 13% (see Tables 2 and 3).

17. But this new permissive phase did not last long. Although private output increased from 1956 to

* *After the exceptionally good harvest in 1937 and the major improvement in the collectivized livestock sector in 1938, Stalin enacted various measures to curtail private activity. Following a period of relaxation during World War II, this repressive attitude toward the private sector was resumed and continued until his death in 1953.*

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1958, several measures were adopted which suggested another turning point in official attitudes toward private agricultural activity:

(a) A March 1956 decree gave collective farms the right to regulate the size of plots and the number of livestock permitted a member according to his participation in the work of the collective farm. Furthermore, the collective farmer was threatened with forfeiture of his plot if he failed to work a minimum number of days on the collective farm.

(b) An August 1956 decree prohibited the use of food products purchased in state and cooperative shops for feeding livestock. The expansion in inventories of privately owned livestock after 1952 had led to the increased use of relatively inexpensive food products such as bread for feed.

(c) Also in August 1956 a decree was passed which reinstated a monetary tax and compulsory delivery quotas of meat and milk on urban owners of livestock. In addition, if the owner, or able-bodied members of his family, were not employed in the socialized sector, a 50% surcharge was levied on both the tax and delivery quota.*

18. In retrospect, the striking success in increasing farm output in the socialized sector between 1953 and 1958 must have led Khrushchev to base future commitments on the assumption that output would continue to grow rapidly. Moreover, the record high in

* *Contravening these restrictive actions in part, however, was a decree passed in July 1957 which abolished the compulsory delivery quotas levied on privately produced agricultural commodities. The decree may have been politically motivated. Its timing coincided with the ouster of the "anti-Party group" and hence probably was an obvious Khrushchevian ploy in the short run to curry public favor.*

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farm output in the socialized sector in 1958 apparently gave further impetus to an official policy of constraint on the private sector. By late 1958, Khrushchev was euphoric, questioning the need for any private activity in agriculture, and at the December plenum he indicated that:

Now that state farms have grown stronger, . . . the existence of large private gardens and of privately owned livestock has become a serious hindrance. . . . [The] able-bodied population is obliged to engage in unprofitable work on its private holdings.

and

Collective farmers' private plots have been losing their importance. . . . [Soon] collective farmers will relinquish their private gardens of their own free will.

In an effort to restrict the number of privately owned livestock, provision was made for individuals to sell their livestock to state and collective farms at favorable prices.

19. This restrictive policy continued into the early 1960's, when several republics passed decrees forbidding private ownership of cattle in selected urban areas. It was officially claimed that state and collective farms were now capable of supplying the urban population with animal products and that livestock keeping in urban areas diverted useful labor from the socialized sector and was "insanitary."

20. Although official decisions were not publicly announced, a simultaneous reduction in the size of herds and sown area held by private owners in both urban and rural areas clearly indicated that *de facto* restrictions were also being applied to peasant households.* Overall output originating from

* Kosygin made a public admission, following the overthrow of the Khrushchev regime in late 1964, that previously unannounced restrictions on sale of feed-stuffs to the private sector had been in effect since 1958.

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individual holdings fell by 2% between 1958 and 1964, reflecting a 15% drop in sown acreage and a 12½% decline in livestock holdings.

Housing

21. In contrast to the major achievement of the post-Stalin leadership in bringing about a rapid increase in farm output in both the socialized and private sectors, and notwithstanding the severe housing shortage, only modest increases in annual completions of new housing in both the state and private sectors were accomplished. The boost in private housing completions was small in spite of a strong demand by individuals for private housing, a large backlog of personal savings, and the non-utilization of bank funds set aside for loans to builders of private houses. Apparently, the main constraint was the failure of the planners in the 1953-56 period to significantly increase the availability of construction materials for individual builders above the earlier low levels.

22. But finally in 1956 and 1957 a campaign was launched to "eliminate the housing shortage within 10 to 12 years." The first phase (1957-60) included a key provision for a rapid increase in the annual volume of new private housing. Measures taken to encourage private builders included (a) provision of a greatly increased supply of building materials, such as brick and lumber, through retail outlets; (b) instructions to city and other municipal organs to provide building plots; and (c) pressure on industrial ministries and other state organs to assist their workers in acquiring blueprints and drawings and to provide technical assistance in building, in transportation of materials, and in provision of utilities and services.

23. As the result of this marked change in official attitude, there was a surge in private building activity in the period 1957-60. By 1959, investment in new private houses was double that of 1956, and for the four-year period as a whole, the quantity of housing constructed by individuals more than doubled in comparison with the first four years of the post-Stalin era (1953-56).

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24. But as in the case of agriculture, in 1960 a decision was made to actively discourage private builders. The official attitude grew increasingly antagonistic, and in the fall of 1960 the press launched bitter attacks on private housing, claiming that the development of "a private property psychology [is] deeply hostile to socialism." Reflecting this new attitude, a number of measures were adopted in the early 1960's which, in turn, brought a series of absolute annual declines in the volume of private housing completions: (a) Loans for private builders were terminated. (b) Local authorities refused to take action on land applications or responded very slowly.* (c) Many illegally built, privately owned houses were confiscated. (d) Utilities, such as electricity, often were not supplied to the areas where land had been authorized. (e) Availability of building materials in retail outlets decreased. (f) In 1962 an all-union decree prohibited construction of private houses in republic capitals. (g) Finally, in 1964 the restrictive features of the 1962 decree were extended to cover all cities with a population of 100,000 or more. By 1964 the volume of completions in the private sector was close to one-half that of 1959, and its annual share of total housing completions had fallen to 36%.

Services

25. Unlike the fluctuating policies toward private activity in agriculture and housing, official policy toward the provision of services by the private sector has been, for the most part, consistently repressive since the 1920's. It severely limits the number of activities that can be engaged in by individuals and discourages participation by heavily taxing the income so derived. Measures to maintain such a policy, initiated in the late 1920's, codified in the 1936 Constitution, and subsequently modified slightly, are still in effect. Among the measures to maintain control are the following:

* Since 1948, plots of land, ranging from 300 to 600 square meters, could be leased by city soviets to individuals in perpetuity. The individual was assessed an annual property tax.

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(a) Prohibition -- many activities common to Western countries, such as individual shops selling food or consumer goods, are forbidden by law.

(b) Registration -- all persons supplying legally permitted services individually must register each year.

(c) Taxation -- all income received from supplying services must be reported and is heavily taxed.

26. Compared with a maximum rate of 13% on income earned in the socialized sector, tax rates applied to income earned in the private sector range up to 81% on income exceeding 7,000 rubles per year. A private doctor pays three times as much tax on 1,000 rubles as a wage and salary worker in a state-operated enterprise; an independent artisan pays four times as much.* A strong incentive to report all such income is provided by the "parasite laws", which subject individuals to severe punishment if they are found to be living on unreported income. Pensioners may supplement their pensions through supplying privately produced services, but the income is subject to tax. In addition, if such income exceeds a certain level (determined by size of pension), the pension is reduced correspondingly. For example, a pensioned doctor choosing to continue the practice of medicine on a private basis will have his state-paid pension reduced if his earnings rise above the relatively low level of 200 rubles per year.

27. Occasionally a new constraint is placed on private activity in the services sector. In 1962, for example, a ukase was promulgated by the RSFSR Council of Ministers which specifically forbade registration of individuals to practice several previously acceptable trades such as watch repair and hat making.

* *A worker pays income tax of 13% on all income exceeding 100 rubles per month, although the rate is lower if he has more than three dependents. Income of less than 60 rubles a month is tax free; from 60 to 100 rubles the rate is graduated from 7% to 13%.*

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Invalids were exempted and could be registered by local councils. Again, beginning in 1963 the Moscow City Soviet prohibited certain handicraft activities in the city such as gold and jewelry working and repair of television sets and radios.

Policy Trends From the End of the Khrushchev Era to the Present

Agriculture

Relaxation, 1965-66

28. Almost immediately after the political demise of Khrushchev in October 1964, there was a marked improvement in the climate for private farming activity. In late October the Party Central Committee ordered the various republics to prepare new directives that would in effect relax restrictions enacted under Khrushchev. And before the end of the year, both Brezhnev and Kosygin, in statements reminiscent of those of Malenkov and Khrushchev in 1953, emphasized the shift. In November 1964, in his first major address, Brezhnev said:

It would be incorrect to ignore the opportunities for private farming by collective farm members, workers, and employees as a means of satisfying their own requirements. In recent years, unjustified restrictions were committed in this field although economic conditions had not yet matured enough for such a step. Those restrictions have now been removed.

29. In December 1964, Kosygin gave a few additional details in his discussion of the economic plan for 1965. Provided the number was kept within decreed limits,* privately owned livestock would no longer be subject to taxation. In addition, restrictions on the sale of feed and fodder for

* Presumably the limits authorized in the 1935 collective farm charter as modified by the 1956 decree.

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privately owned livestock, in effect since 1958,* would be removed. Decrees promptly followed which (a) restored the right of livestock possession to citizens living in towns and urban settlements, (b) permitted collective farm members to increase plot size to that specified in the 1935 charter, (c) called for local authorities to encourage livestock holdings through sales of feed and fodder and through loans for livestock purchase, and (d) required that "baseless confiscation" of plots stop.

30. Khrushchev's successors, like Stalin's successors in 1953, were confronted with near stagnation of overall agricultural production in the face of steadily rising demand for farm products. And as in the past, the new leadership turned to the private sector to meet initial goals for a rapid advance in output of selected farm products. In 1965 -- the first year in which the more lenient policy was operative -- there was a spurt of 13½% in private livestock holdings. By 1966, total acreage and livestock holdings in the private sector were 7½% and 15%, respectively, above 1964; output was up 7%.

Ambivalence, 1967-69

31. The frequent and encouraging mention of the private sector in public utterances of various leaders and in the press during the period 1965-66 was followed by silence during 1967. Apparently the marked improvement in the performance of the socialized sector of agriculture in 1966 dampened the new regime's initial enthusiasm for encouraging production in the private sector. The attainment of record levels of production boosted overall farm output to 14½% above the average level attained in the three-year period 1963-65, with a notable 18½% boost in output in the socialized sector contributing roughly 70% of the total gain. And, as in the years that immediately

* *Although there were some restrictions on sales of grain and fodder to the population in 1956, sales to individuals were apparently not completely stopped until 1958.*

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followed the striking success in increasing farm output in the socialized sector during 1956-58, the regime apparently was led to base output plans on the assumption that the rate of growth of output from the collective and state farms would continue.

32. In any case, the forward momentum achieved in 1965-66 in expanding the resource base and production in the private sector was not maintained in 1967-68. Although output in the private sector in both years was slightly above the 1966 level, total sown acreage in private plots leveled off and, more ominously, there was a marked downturn in the size of privately held herds. By the end of 1968, livestock holdings in the private sector were 9% below the level at the end of 1966.

33. But unlike the period 1959-64, when an erosion in the overall size of the private sector was signaled by a series of repressive decrees and policy statements, the stagnation in output and downturn in livestock holdings in 1968-69 does not appear to have been the consequence of a conscious policy on the part of the leadership to suppress private agricultural activity. Rather, the worsening environment appears to have been due, in part, to indirect -- and possibly unforeseen -- effects of official policies toward farms in the socialized sector and, in part, to the proclivities of local *raion* leaders and managers of collective and state farms. Official policies with respect to the socialized sector that may have had detrimental side effects on private holdings include (a) "specialization" of livestock production in the socialized sector and (b) an acceleration in the long-run trend to monetize collective farmers' earnings from work in the socialized sector of collective farms.

34. With respect to specialization of livestock production, the central planning organs directed collective and state farms with relatively small holdings of hogs and sheep to abandon such production altogether. The enforcement of this policy resulted in a drop of one-fourth in the number of collective and state farms with any holdings of hogs, sheep, or goats. This, in turn, resulted in a major reduction in the source of supply of young stock for households

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attached to the affected collective and state farms.*

35. The step-up in monetization of peasant incomes by a rapid shift to cash remuneration in place of in-kind payments of grain also tended to discourage the private raising of livestock. The depressing effect of monetization in large measure resulted from the decline of in-kind payments, which was not offset by increased sales of grain by collective farms to their members. As a result, the total amount of grain issued or sold to collective farm members in 1967 was 28% below the 1966 level.**

36. Finally, in the absence of specific directives from the center to permit or encourage private farming activity, there probably is a tendency for local authorities to act restrictively. Local Party officials and collective and state farm managers have simple success criteria imposed from above -- fulfill and overfulfill the output and procurement goals set for the socialized sector. In this context, there is a natural, if tacit, community of interest between local Party and farm officials to encourage an increase in the share of labor expended in socialized agricultural activity, even at the expense of private production. Indeed, Politburo member and Ukrainian Party Chief Shelest complained in a recent speech that the trend toward monetization of peasant incomes led to suppressive tactics at the local level:

Some short-sighted leaders, introducing . . . pay by money, "forgot" about providing livestock of collective farm members with feed. This led to a decline in number of livestock and poultry in private holdings . . . in a number of oblasts.

* Traditionally, many households rely solely on the collective or state farm to which they are attached as the source of the "annual pig" -- that is, purchase by a household of a piglet from the spring farrowing. The piglet is raised on the private plot, reaching slaughter weight by October or November of the same year.

** This precipitous decline was also due in part to a drop in grain output in 1967.

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37. Other recent evidence, however, strongly suggests that the indifference, if not antagonism, displayed by the leadership and central organs toward private activity after 1966 may have been replaced in the latter half of 1969 by an active policy of encouragement. Two years of stagnation in total output of meat and other livestock products (1968-69), coupled with rising consumer demand, may once again (as in 1953 and 1965) have resulted in an obvious need to expand the private sector. Statements by Party leaders have called on local organs as follows:

(a) To accelerate the sale of young pigs for raising by households.

(b) To expand sales of grain and other feedstuffs to the private sector. In 1970, for example, some 50% more grain than in 1969 is scheduled for sale to individual owners of livestock in the important pork-producing republic of Belorussia.

(c) To stem if not reverse the trend toward monetizing peasant income by encouraging households to accept grain as in-kind payments for work in collective farms. Toward this end, farms have been directed to evaluate in-kind payments (to be deducted from gross earnings) using prices paid to farms by state procurement organs instead of using the much higher retail prices.

(d) To reverse the policy of specialization on collective and state farms. This will enable these enterprises to maintain a flow of young stock to individual collective farmers or state farm workers.

38. In support of these new initiatives, the center has ordered local Party organizations to check on their implementation. Although it is too early to judge the efficacy of the recent measures in promoting a sizable expansion of the private sector, there is at least one positive indicator that the new initiatives will reverse the downward trend. Even though there was a further drop of 5% in overall value of private livestock holdings in 1969, hog numbers, after three years of continual declines, increased by more than 10%.

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Housing

39. Early in 1965 a shift in emphasis, if not in policy, toward individual house building was discernible, although the restrictive decrees of 1962 and 1964 were not rescinded. In contrast to the delays characteristic of the period 1960-64, local authorities promised quick action on applications for land, supplies of building materials were advertised for sale to the public, and state enterprises made building loans available to employees.

40. In retrospect the above actions seem to have been aimed at halting the decline rather than expanding construction of private housing. After a decline of 45% between 1959 and 1964, investment by individual home builders in 1965 and 1966 remained at the 1964 level. In this period, the supply of building materials, not financing, seems to have been the main constraint to a turn upward in private housing completions. In one town less than 10% of the funds set aside for loans were drawn on:

Last year there were 35 homebuilders; now there are only two. . . . It's too hard; one time there is no roofing, another no bricks . . . people have more money to spend. They prefer not to take out loans but to make substantial down payments for cooperative apartments in order not to burden themselves with concerns of building.

41. But for reasons that are not entirely clear, the climate again turned for the worse after 1966. Through 1966-68, press accounts continued to claim that it would be wrong to ignore private savings and the citizen's desire to build his own house. An attempt was officially made to resolve the conflict between ideology and practical necessity with semantics, claiming that houses are not private but personal property, a form legally recognized by socialist society. In 1968 the deputy chief of the Gosplan housing division stated that reserves for housing construction were vast and that Soviet housing "successes" could be even greater if individuals were encouraged to build houses. Despite semantic and bureaucratic

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reassurances, the construction of private housing has consistently slipped and by 1968 was nearly one-tenth below 1966. Although the downturn in individual home building may possibly be a reflection of deliberate restrictive policies, it is more likely the outcome of an increasingly stringent problem in providing building materials for the country as a whole. In the face of continued expansion in construction activity in the socialized sector, the overall output of cement, brick, and other construction materials has slipped from an average annual growth rate of 9% in 1965-67 to an average of 3½% in 1968-69.

Services

42. As the economy grows, there is a more than proportionate increase in the demand for services of all kinds. During 1965-66 the inadequate provision of services by state organizations was discussed publicly, along with suggestions that some of the services then forbidden to individual practice be legalized. As one author put it:

Private services don't grow in the market, they grow in the area where there should be a market. . . . It is uneconomical to ignore this energy. Let them work. They don't have to be dangerous to socialism. The danger exists in that it goes on outside "accounting"; it is not controlled.

Some suggested services were: to provide distinctive souvenirs, to cook and sell food, to sell flowers in nonmarket areas, and, of even more importance, to repair automobiles:

tens of thousands of automobile tourists stop [along the Black Sea]. The garage with repair facilities in Yalta is 60 to 80 or even 100 kilometers away. . . . Where are you Gavrilich? And there he is. He hides behind the bushes and waves his wrench until the militia pounce on him. He pays no taxes and sticks you for triple the price, explaining this is not unreasonable given the risks he takes.

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43. However, despite the less restrictive policies of the new regime toward private activity in agriculture and housing in 1965-66 and despite the more permissive attitude toward publicizing proposals for expanding the types and scope of service activities provided by the private sector, there was little discernible expansion in the volume and kinds of individually provided services throughout the period 1965-69.

Conclusions

44. Private activity continues to play an important role in the Soviet economy despite official policies that have been generally repressive and have steadily reduced the private sector's share in the output of goods and services. The proportion of GNP attributed to private activity has fallen from about one-fifth in 1950 to one-tenth at present. In agriculture -- the traditional problem area of the economy -- the decline in the share of output attributable to private activity has been less precipitous over the same span of time -- from 48% to 31%. Similarly, the maintenance of a relatively high level of activity in the construction of privately built housing resulted in a relatively small decline in the proportion of total stock of housing owned by individuals -- from 70% to 55%.

45. Long-run official policy toward private activity can only be characterized as one of pervasive antagonism and repression. Common to the Stalin and post-Stalin regimes, this policy is rooted in the ideological underpinnings of communism and in the optimistic assumption that all citizens will sooner or later voluntarily surrender their rights to private activity as the supply of goods and services from the socialized sector is increased. However, each succeeding regime has shown that this long-run restrictive policy is tactically flexible in the short run. The regimes have differed mainly in the degree of relaxation they are willing to permit.

46. This short-run flexibility is most dramatically demonstrated in the policies, both official and un-stated, toward private activity in agriculture.

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Turning points in policy, reflected by relatively sharp increases and decreases in production, are reasonably prominent and appear to be closely related to progress, or lack of progress, in the socialized sector. After a period of relatively rapid growth, or even following a year of exceptional performance by the collective and state farms, restrictions tend to be imposed on the private sector: strictures are placed on the size of private plots and the number of livestock permitted, taxes are increased, confiscations occur, less feed is made available to individuals, and the number of days a collective farm member is required to work in the socialized sector is increased.

47. Several or all of these restrictive policies were in evidence after the record harvest in 1937 during Stalin's reign, following a period of increased production in the late 1950's in the Khrushchev era, and, more recently, after the record harvest of 1966 during the Brezhnev-Kosygin regime. When, however, socialized production stagnates and food supplies are unusually limited (as in the periods immediately after the demise of the Stalin and Khrushchev regimes), the restrictions on private activity in agriculture tend to be relaxed. Several or all of the following measures are then used to spur output in the private sector: increased supplies of livestock and feed are made available to individuals, taxes are reduced or eliminated, barriers to the use of public lands are lowered, and citizens living in towns and urban settlements are allowed to own livestock. The effect of these fluctuations in policy can be most graphically illustrated with reference to changes over time in the total inventory of livestock held by private owners (see Figure 3).

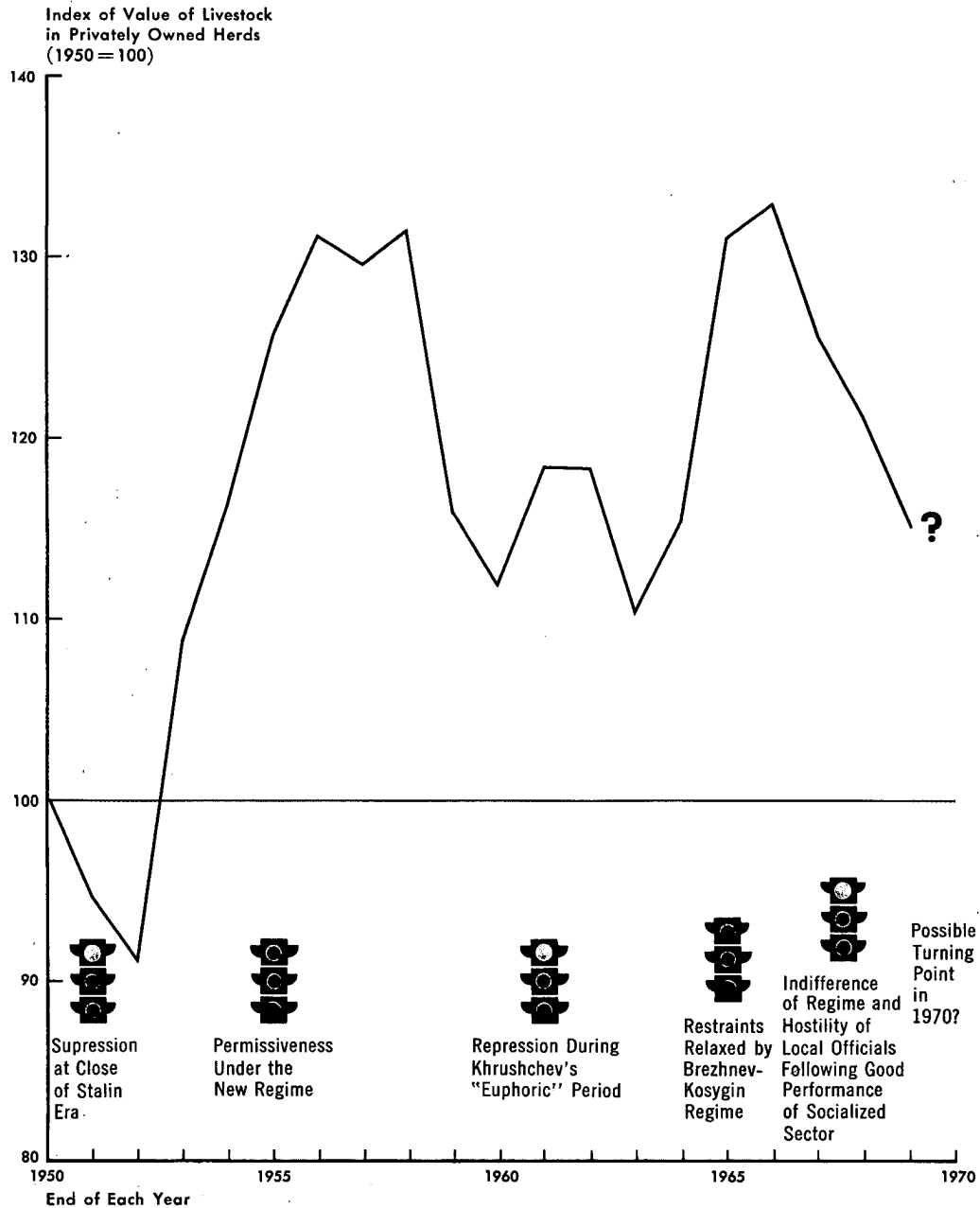
48. In late 1969 there were signs that once again a turning point in official policy might be at hand. During 1967-68 the leadership's apparently indifferent attitude toward private activity in agriculture -- probably the result of euphoria induced by the substantial harvests of 1966 and 1967 -- encouraged local authorities to pursue a more restrictive policy toward private activity. These measures, combined with the side effects of official policies directed

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Figure 3

USSR: Changes in Private Herds Related to Official Policy, 1950-69



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at the socialized sector, led to a decline in livestock holdings and a standstill in overall output of both crops and livestock products in the private sector. During 1968-69, moreover, there was stagnation in output of meat and other livestock products in the socialized sector. This stagnation came at a time of particularly rapid rise in consumer demand for high-quality foodstuffs, especially animal products.

49. In consequence, there now seems to be a willingness to encourage the private sector, at least in the production of livestock products. Recent evidence strongly suggests that the indifference, if not antagonism, displayed by the leadership and central organs toward private activity after 1966 was replaced in the latter half of 1969 by an active policy of encouragement. Once again (as in 1953 and 1965), exhortations to aid the households in maintaining or expanding their holdings of livestock are included in public utterances of the leadership.

50. In support of the new initiatives, the center ordered local Party organizations to check on their implementation. Although it is too early to judge the efficacy of the recent measures designed to boost output or the sincerity of the regime in promoting a sizable expansion of the private sector, there is at least one positive indicator that the new initiatives will reverse the downward trend in private output. Even though there was a further drop of 5% in overall value of private livestock holdings in 1969, hog numbers after three years of continual declines increased by more than 10%.

51. The ideological underpinnings of communism also have dictated the long-run strategy regarding privately owned housing. This strategy, however, seems less flexible in the short run than the policies applied to private activity in agriculture. Although periods of expansion and restriction have occurred in private housing, the efforts of the Brezhnev-Kosygin regime seem to be aimed at maintaining, not expanding, the level of privately built housing. It is doubtful that the leadership will resort to an expansion of individual house building in spite of great pressure on the supply of housing. Individually built housing

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can help to ease housing pressures in smaller urban areas and in rural areas, but it is not a reasonable solution to the overall shortage. The heaviest pressure on the housing supply is in urban areas, where the limited availability of land and the high cost of providing public utilities have already ruled out further private building.

52. Short-run policies are even less flexible concerning the provision of services by individuals. The removal of the present restrictions on privately supplied services is not likely; complete elimination of these services, including the presently tolerated "grey" area, would require a sharp increase in the provision of comparable services by the state. If this is not possible (and history indicates that it is highly unlikely), then privately supplied services must be permitted. Another reason why complete elimination of these services seems unlikely is the increased demand for them stimulated by the high level of savings.

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Table 2

USSR: Indexes of Private Production
in Agriculture and Housing

1950 = 100

<u>Year</u>	<u>Private Agriculture</u> <u>a/</u>	<u>Private Housing</u> <u>b/</u>
1950	100.0	100.0
1951	84.6	92.6
1952	95.1	93.0
1953	103.0	91.3
1954	104.9	101.7
1955	104.4	123.0
1956	116.3	124.3
1957	113.2	172.2
1958	118.4	208.7
1959	111.6	234.3
1960	112.4	233.9
1961	118.8	200.4
1962	114.9	174.8
1963	110.8	155.2
1964	116.5	147.0
1965	122.5	149.6
1966	124.4	157.4
1967	126.3	155.7
1968	127.8	142.6
1969	122.3	135.2

a. Value of output, net of intra-agricultural use of crops for feeding livestock and for seeding crops.

b. Completions of new housing.

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Table 3

USSR: Indexes of Private Holdings
of Livestock and Acreage

1950 = 100

<u>Year</u>	<u>Private Livestock Holdings ^{a/}</u>	<u>Acreage in Private Plots ^{b/}</u>
1950	100.0	100.0
1951	94.7	N.A.
1952	91.0	N.A.
1953	108.8	73.9
1954	116.0	N.A.
1955	125.7	79.1
1956	131.2	77.9
1957	129.6	77.9
1958	131.3	78.4
1959	115.6	77.2
1960	111.8	71.9
1961	118.4	71.9
1962	118.2	71.8
1963	110.1	71.6
1964	115.2	66.8
1965	130.9	70.4
1966	132.7	71.8
1967	125.3	72.2
1968	120.9	72.2
1969	114.9	N.A.

a. Based on the value of herds in the private sector as of the end of each year.

b. Sown acreage directly under the control of private owners.

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APPENDIX

Methodology

The relative share of economic activity in the Soviet Union that is accounted for by the private sector can be expressed in several ways. The choice of a measure will depend upon the purpose at hand. For an appraisal of the contribution of the private sector to the total productive activity of the economy, the appropriate measure is GNP at factor cost originating in the private sector. This is equal to total value added (that is, a summation of the additional values imparted to goods and services at each stage of production) by the contributions of privately held capital and land and privately provided labor. In this context, the share of GNP attributable to the private sector (see Figure 1 and accompanying text) is the combined value of these contributions expressed as a percentage of the total value added by *all* factors of production (socialized and private).

A different concept of measurement is used to identify the private sector's share of the final output of agricultural products, housing completions, or provision of services, as shown in Figure 1. Here, *gross* measures of output are used. For example, when the object is to depict the private sector's share of agricultural output, it is appropriate to compare the summation of the value of the output (grain, meat, vegetables, and so on) produced in the private sector with the value of all agricultural output. Similarly, gross measures are used to gauge the relative shares of the output of housing and of services that are accounted for by private activity. The gross measure then is useful in answering a question such as, "What is the share of the country's total meat output produced by the private sector?"

With respect to the resources embodied in the final product, however, the gross measure does not distinguish between the share that originated in the agricultural sector and the share that originated in other sectors of the economy. For this reason, the gross measures are not appropriate for describing the relative importance of private activity to the output of the economy as a whole. Here we must be

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concerned with the share of private activity in the intermediate stages of production as well as in the final stage. As noted above, the value-added concept used in the derivation of the GNP provides such a measure. To base a comparison of the aggregate output of the private sector with that of the socialized sector on *gross* measures would involve double counting of goods and services and would distort the relative share of private activity in the overall contribution of labor, capital, and land to final output. For example, in the case of agriculture the value of intermediate goods and services (such as fertilizer, fuels, and lubricants) purchased from other sectors of the economy is *not* excluded as it would be in a value-added measure.

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