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Special Report

Soviet Economic Performance in 1966

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SOVIET ECONOMIC PERFORMANCE IN 1966

The Soviet economy had a good year in 1966, due in large measure to record agricultural production. This was principally because of favorable weather, but increased allocations of resources and additional incentives supplied under the Brezhnev program for agriculture also played a significant part. In addition, industrial output in 1966 grew at a faster rate than in 1965 and exceeded the 1966 plan goal. Growth last year was nevertheless below the average annual rate of increase implied by the goals of the five-year plan (1966-70), particularly for some fuels and basic industrial materials, as well as certain key categories of equipment. Of special significance was the dramatic rise in the production of military hardware after virtual stagnation in 1964 and 1965.

Although total investment last year grew at about the rate set by the planners, the portion channeled into agriculture was well below the planned amount. Conversely, investment in industry and other economic sectors was considerably in excess of plan. Increases in the levels of freight transportation and of construction were less than in 1965. Per capita consumption rose by a substantial amount, but housing construction remained a major sore spot in the Soviet economic picture.

Gross National Product

The USSR's gross national product (GNP) rose by an estimated 7.4 percent last year, in large part because of the dramatic recovery of agriculture. (See Table 1.) If 1965--a poor crop year--and 1966--a good year--are taken together, GNP grew at a much faster rate than the average for 1959-64 but still well below the 1951-58 average.

The nonagricultural sectors as a whole did not grow as rapidly as in 1965, except for industry. The growth in services was about the same as a year earlier, whereas construction, transportation, communications, and domestic trade grew at a much slower rate.

Agriculture

Preliminary estimates indicate an increase of about 10

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TABLE 1

USSR: MAJOR INDICATORS OF ECONOMIC GROWTH

	Percentage Rate of Increase			
	1951-58*	1959-64*	1965	1966**
Gross national product	6.9	4.6	4.9	7.4
of which:				
Agriculture	5.4	0.6	-1.4	10.2
Nonagricultural				
sectors	7.7	6.4	7.3	6.4
Industry	8.5	7.1	6.4	7.2
Construction, transportation, communications, and domestic trade	12.3	6.6	9.7	5.8
Services	2.4	4.4	5.7	5.5

*Annual average

**Preliminary

percent in net agricultural output last year. Records were set in both the crop and livestock components, and the crucial usable grain crop is tentatively estimated at from 135 million to 140 million metric tons (MMT). This is less than the Soviet claim of 171 MMT, which includes excess moisture, immature grain, and weeds and other impurities. The estimated amount of usable grain includes a record harvest of about 75 MMT of usable wheat, enabling the USSR to rebuild its depleted stocks. Production of

other crops was also good, and cotton and sunflower-seed output reached record levels. (See Table 2.)

The increased output of livestock products was ascribable to larger herds supported by good feed supplies in the major livestock areas. Part of the increase in meat production, however, was caused by distress slaughtering due to spot shortages of feed early in 1966 and to foot-and-mouth disease in some areas.

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TABLE 2

USSR: PRODUCTION OF MAJOR CROPS
AND LIVESTOCK PRODUCTS, 1964-70*

	Million Metric Tons				
	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1966-70 Plan (Annual Average)</u>	<u>1970 Plan</u>
Grain: Soviet claims	152.1	121.1	170.8	167	180
CIA estimates	120.0	100.0	135-140	--	--
Of Which					
Wheat: Soviet claims	74.4	59.7	NA	NA	NA
CIA estimates	58.0	48.0	75.0	--	--
Potatoes	93.6	88.7	87.2	100	107
Sugar beets	81.2	72.3	73.8	80	82.4
Cotton	5.28	5.66	6.0	5.6 - 6.0	NA
Vegetables	19.5	17.6	17.2	NA	NA
Sunflower					
Seed: Soviet claims	6.06	5.45	6.14	NA	NA
CIA estimates	5.57	5.01	5.65	--	--
Meat: Soviet claims	8.3	10.0	10.8	11.0	12.0
CIA estimates	7.3	8.8	9.5	--	--
Milk: Soviet claims	63.3	72.6	76.1	78.0	85.7
CIA estimates	59.5	68.2	71.5	--	--
Eggs**	26.7	29.1	31.4	34.0	38.7

*CIA accepts Soviet agricultural data except where otherwise noted
**Billions

NA: Not available

The success of Soviet agriculture in 1966 was largely the result of favorable weather. Above-average precipitation occurred in most of the important grain areas, and the wheat crop in the New Lands was harvested under nearly ideal conditions. Supplies of agricultural machinery, fertilizer, pesticides, and improved seed were also greater than before. In addition, the new incentives provided under the Brezhnev program for agriculture had a beneficial but unmeasurable effect.

In spite of the increased allocation of resources to the countryside, investment in Soviet agriculture in 1966 was behind the schedule laid down by Brezhnev for 1966-70. Deliveries of 10 of the 16 major items of equipment reported for 1966 were below deliveries in 1965. The production of all types of agricultural machinery, excluding tractors and trucks, was less than 4 percent above the 1965 figure. The five-year plan calls for an average annual increase of more than 11 percent. Although the output of fertilizer last year was above plan, this achievement was offset by continued problems of quality, packaging, and application.

The five-year plan goals for land reclamation and rural electrification were also behind schedule in 1966. Data released last October for the first nine months of the year showed that the annual plans for land reclamation were only half completed as of that time. This shortfall

is significant because the USSR is planning to use reclaimed land to provide a considerable share of the projected growth in grain production during 1966-70. As for rural electrification, both the rate of growth in 1966 and that planned for 1967 are considerably below the average annual rate implied by the Brezhnev program.

On the other hand, the incentive aspects of the Brezhnev program appear to be working. These incentives include increased prices paid by the state for farm products, price reductions on consumer goods sold in rural areas, and guaranteed minimum wages and pensions for collective farm members. The regime expects these benefits not only to stimulate production but also to slow down the migration of the best farm workers to the cities.

Industry

Soviet industrial production rose by an estimated 7.2 percent last year, an increase over the 6.4 percent figure achieved in 1965, but still below the average annual rate of 8-8.5 percent necessary to meet the plan for 1970. Growth was greatest in the machinery sector whereas a year earlier industrial materials and consumer nondurables outpaced machinery.

According to Soviet data, the gross value of output of the important machine building and metalworking industry, which

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includes the production of military hardware, grew by 12 percent in 1966. This figure, however, probably overstates the true growth rate by two or three percentage points, because of inflated reporting from subordinate units, overpricing of new products, and increased double counting of output.

If the gross value of total machinery output actually grew by 9 or 10 percent, and if the output of civilian machinery rose by 8 to 9 percent--both estimates calculated from a preliminary examination of Soviet data on the output of producer and consumer durables--then the output of military hardware increased by at least 10 percent in 1966. An alternative analysis, based on estimates of physical production, suggests an 8-percent growth rate in military hardware last year. In any case, growth in the production of war materiel was in the neighborhood of 8 to 10 percent in 1966, compared with an average annual increase of less than 1 percent during 1964-65.

The recent output figures for major industrial items are shown in Table 3. Several factors explain the slump in growth in the fuel sector in 1966. Bottle-necks in the supply of equipment for the natural gas industry continued to hamper the expansion of production, and the output of coal has suffered from a stagnation in investment combined with

an accelerated shift to cheaper fuels. The shortfall in the production of electric power apparently was caused by slower growth than planned in the major consuming branches.

Within the food sector the 9-percent increase in meat production in 1966 came on top of the extraordinary increase of 26.5 percent in the previous year and was double the rate needed to fulfill the plan for 1966-70. In contrast, the increase in the fish catch in 1966 was far below the annual rate needed to fulfill the five-year plan goal.

The economic reform probably had little effect on industrial performance in 1966. The 1966 plan fulfillment report notes that only 704 industrial enterprises with more than two million workers--out of a total of about 27 million--had been transferred to the new system of incentives and management. Even in the last half of the year, enterprises working under the new system accounted for less than 10 percent of the employment and 12 percent of the output of Soviet industry.

The regime claims that the reformed enterprises greatly exceeded the average rates of growth in output and profits for all industry. Their performance does not necessarily vindicate the success of the

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TABLE 3

USSR: OUTPUT OF IMPORTANT INDUSTRIAL COMMODITIES

	Absolute Output*		Percentage Rate Of Increase**	
	1966	1965	1966	1966-70 Plan***
METALS AND ORES:				
Iron ore	160 MMT	5	4	7.5
Pig iron	70.3 MMT	6	6	7.5
Crude Steel	97 MMT	7	6	7
Steel pipe	10 MMT	11	10	10
FUELS AND POWER:				
Electric power	545 BKH	10.5	8	10.5
Coal	585 MMT	4.5	1	3
Crude oil	265 MMT	8.5	9	7.5
Gas	145 BCM	17.5	12	12.5
MACHINERY:				
Chemical equipment	416 MR	12	8	16
Agricultural equipment	1,510 MR	1	4	11.5
Oil refinery equipment	147 TMT	0	6	10
Instruments (including computers)	2,374 MR	11	14	11.5
CONSUMER DURABLES:				
Television sets	4,400 TU	25	21	15.5
Refrigerators	2,200 TU	47.5	32	26
Automobiles	230 TU	8.5	14	30
CONSUMER NONDURABLES:				
Cotton fabrics	5.7 BSM	2.5	4	NA
Leather footwear	522 MP	2.5	7	5
Meat****	5.7 MMT	26.5	9	4.5
Fish	6 MMT	11.5	5	8.5

*MMT-million metric tons, BKH-billion kilowatt-hours, BCM-billion cubic meters, MR-million rubles, TMT-thousand metric tons, TU-thousand units, BSM-billion square meters, MP-million pairs.

**Rounded to nearest half percent except for 1966 data, which are rounded to nearest full percent.

***Based on midpoint of planned ranges of output in 1970.

****Excludes production of collective farms and individual households.

NA: Not Available

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TABLE 4

USSR: MAJOR INDICATORS OF INVESTMENT ACTIVITY*

	Percentage Rate of Increase				
	1961-65**	1966 Plan	1966 Actual	1967 Plan	1966-70 Plan**
Gross Fixed Investment of which:	6.5	6.5	6	8	8
Industry	7	5	7***	9***	8.5
Agriculture	11.5	20	12.5	10	14
Other	4	1	2.5***	6***	5
Completed Investment Projects of which:	6.5	NA	2.5	NA	9.5-10
Housing	-2.5	12.5	1	16.5	6.5-7.5
Stock of Productive Fixed Capital	9.5	NA	8	NA	8.5-9

*Data are rounded to the nearest half percent

**Annual average

***Estimate

NA: Not available

economic reforms, however, because the firms transferred to the new system were already above average in efficiency.

Investment

Over-all investment in 1966 was almost up to plan, but marked differences occurred between plan and the actual results in major sectors of the economy. (See Table 4.) Agricultural invest-

ment fell far short of plan, as previously noted, whereas industrial investment was considerably above plan. The inability to complete investment projects on schedule and to get newly commissioned plants up to capacity level of output continues to be a major inefficiency in the Soviet economy. The existing huge volume of unfinished construction again increased by a substantial amount in 1966.

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TABLE 5

USSR: TRENDS IN CONSUMER WELFARE*
1965-70

	Percent Rate of Increase		
	1965	1966	1966-70 Plan**
Per capita real income	7.5	6	5.5
Average earnings of wage and salary workers	6	3.5	3.5
Average earnings of collective farmers	16	16	6 - 7
Per capita consumption of which:	4	5	5
Soft goods	1	7	6
Durable goods	7	11.5	9.5
Services	8.5	5.5	6
Food	4	3.5	4

*Data are rounded to nearest half percent
**Annual average

Consumption

A 5-percent increase in per capita consumption in 1966 reflects further improvement in the lot of the Soviet citizen. The consumption of both soft goods and consumer durables increased at a faster rate than implied by the five-year plan goals, but the consumption of services and food was slightly below the five-year targets. (See Table 5.) There was a noticeable increase

in the quality of the Soviet diet last year, enhanced by increased supplies of meat and milk.

Housing remained a major problem. The completion of housing units went up by only 1 percent, as compared with the planned increase of 12.5 percent. Personal savings rose by a record 22 percent, a reflection of the still inadequate supply of high-quality consumer goods and services and the steady advance in money incomes.

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Outlook

The past year was on balance a good beginning for the new five-year plan period. In the next four years, however, agriculture cannot be expected to duplicate the extraordinary rate of growth of 1966. Nonetheless, new investment and increased incentives appear to have moved it off dead center. The results of the industrial reforms remain to be seen. Since these make no

fundamental changes in the centralized "command" system of allocating resources, only small gains are expected from them. The old Soviet problems remain those of delay in completing new construction projects and difficulties in applying new technology to industrial operations. Although prospects are poor for returning to the excellent growth rates of the 1950s, Soviet economic performance in 1966-70 may better the rates of the early 1960s.

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(Prepared by the Office of Research and Reports)

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