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THE AVAILABILITY AND VALIDITY OF ECONOMIC
INFORMATION ON THE USSR

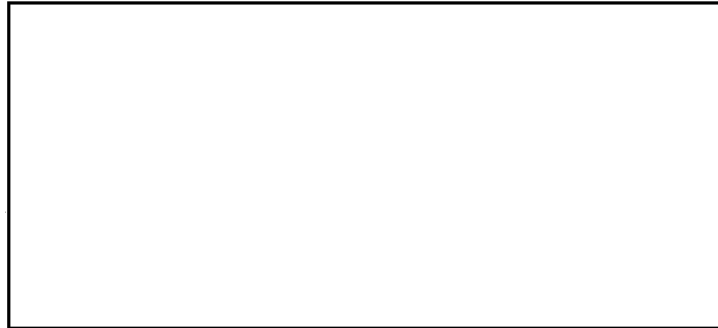
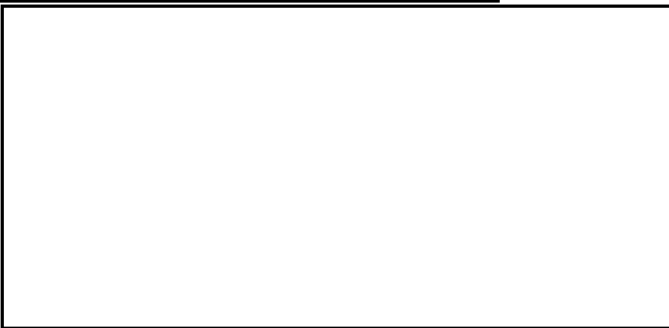
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Robert Amory, Jr.

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INDUSTRIAL COLLEGE OF THE ARMED FORCES
WASHINGTON, D. C.
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THE AVAILABILITY AND VALIDITY OF ECONOMIC INFORMATION ON THE USSR

24 March 1953

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GENERAL GREELEY: "Know thy enemy." Well, we certainly know who he is. Also we know what his intentions are. So far as we are concerned, they are all bad. But just how bad? It seems to me the real problem facing us then is to determine what are Russia's capabilities, and especially her economic capabilities, to fight us in an all-out war.

Our speaker has been working in this field for some time. He is still directing his efforts toward a solution of this most difficult problem. Today he will discuss the availability and validity of economic intelligence information on the USSR.

Incidentally, this morning's Post carries an announcement that Mr. Amory has been appointed to the newly created National Security Planning Board of the National Security Council. He tells me that this new honor is in addition to his other duties.

I am very happy to present to the College Mr. Robert Amory, Jr., of CIA.

MR. AMORY: General Greeley, Admiral Hague, and gentlemen: It is a great pleasure for me to be here.

I am not going to elaborate further on what the General said about the importance of economic capabilities as the underlying or fundamental measure of the strength of our enemy. I think we are all aware that, looking at him for a reasonable span of years ahead, three to five, for example, his order of battle or his exact production of end products today, are of considerably less importance than the resources he has and the industrial potential in his possession to create end items or supply his line of battle or his fleets when he decides to commit them.

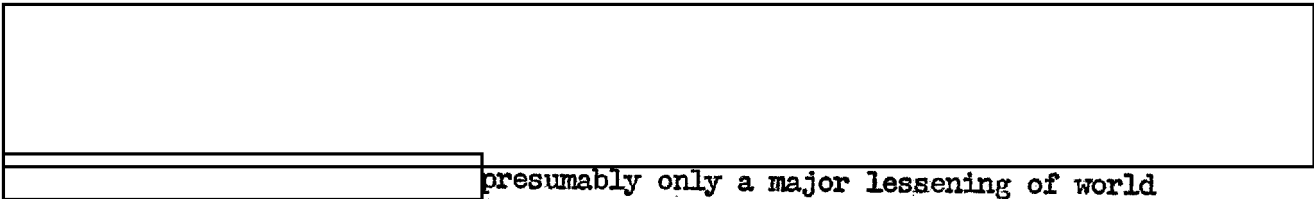
I think it is interesting--and it is gratifying to me--to find how well accepted this general thesis is. You probably know, and have read in the papers, that the President has called upon what are now known as the Seven Wise Men to come to Washington from all over the country and help in advising him and the NSC with respect to over-all national policy--what he can do within the limits of our national economy. When we got through briefing them a few days back, they were all in general agreement that everything would be easy if they only could know for sure what the real nature of the threat three, five, or ten years away was; and that that all hinged on whether or not Russia was a mighty industrial power or was in fact an agrarian-village economy with an exterior of industrial might, with feet of clay and a rotten core.

Now, to get to my subject, I am going to concentrate on a description first of all of the materials with which we work, and the methods we use in converting raw information into finished economic intelligence; and wind up with as frank an appraisal as I can giving the margins of error that we feel exist in the economic estimates that the intelligence community as a whole--all the services, the State Department and ourselves--furnish the policy makers.

First let us look at the Soviet statistics themselves. As you are probably well aware, the Soviets have very close and direct control over almost all economic activities. They could not do that without a most massive statistical administrative apparatus. It is interesting to go back into the early years of Lenin. I found instances as early as 1909 and another one for 1917, in which he exhorted his immediate supporters in roughly these words: "We must first of all seek the commanding heights of the accounts. Once we control them, then we have the economy of Great Russia in our control."

Any consideration of the nature of the Soviet Union's economic organization makes it immediately clear that that nation must have a large and elaborate statistical organization. As is well known, the Soviet government owns and operates much of that country's economy directly. In addition, virtually the entire economy is directed by means of a centrally-formulated economic plan covering all significant areas of production and distribution domestically, as well as the nation's foreign economic relations. Obviously this kind of centralized control and operation over an economy involving over 200,000,000 persons would be impossible unless the administrators and planners of this economy had comprehensive and current statistical data to guide their decisions. The gathering and compilation of these data, equally obviously, require an organization and personnel commensurate with the tremendous task involved. Against this background, the Soviet statement that the USSR has over 2,000,000 bookkeepers, accountants, economists and statisticians engaged in this general field is quite credible.

The skimpy quarterly and annual economic reports released by the Soviet government in recent years give, therefore, a most misleading notion of the volume and detail of current Soviet statistics. A much more adequate idea of the extent of Soviet statistics is given by the large statistical annuals, comparable to our own statistical abstracts, issued by the Soviet government until the mid-1930's as well as by the even more detailed volumes issued almost two decades ago on such matters as statistics of labor and statistics of agriculture. Such rich volumes are presumably still issued, but now they are classified and unavailable to foreigners who must infer their existence. The secret 1941 economic plan which, through the fortunes of war, came into the possession of the non-Soviet world after World War II is the latest large volume--this one having over 700 pages--giving us a concrete indication of the magnitude



presumably only a major lessening of world tension would ever again induce the Soviet government to make such information freely available.

Because of the tremendous extent of state ownership in the Soviet economy, the borderline between statistics and accounting is to some extent rather hazy in the Soviet Union. Since that country is from many points of view simply one giant integrated economic organism, it might be thought that the problems of collecting and analyzing its relevant numerical data are more akin to the internal accounting problems of a large--but far smaller--American enterprise such as General Motors than to statistics as we normally conceive this subject. That there is also some confusion on that subject in Soviet minds is evident from the fact that the organization which is now called the Central Statistical Administration was once known as the Central Administration for National Economic Accounting. However, study of the relevant Soviet literature suggests that in practice in the USSR the distinction between bookkeeping and accounting on the one hand and statistics on the other is very similar to our own use of these terms. That is, the internal affairs of Soviet factories, farms, banks and the like are regarded as the area of bookkeeping and accounting, while the collection and analysis of data relating to a number of such quasi-independent enterprises (or relating to a number of or many individuals) is regarded as statistics.

In the fall of 1928 the Soviet government inaugurated its First Five Year Plan, and with this it soon found it expedient to curtail the release of statistical data. One of the outstanding events of the period of the plan, for example, was the collectivization drive and the attendant loss of a major part of Soviet livestock herds. The Russians lost within the few years 1928 to 1932 30 million head of cattle, or over two-fifths of their total herds; 14 million hogs, or over half their total herds; and nearly 100 million sheep and goats, or two-thirds of their total herds. These losses were an overwhelming blow to Soviet aspirations to ameliorate their Eastern European living standards with larger supplies of animal products.

In 1933 the Soviet government published a volume heralding the successes of the First Five Year Plan. The section on agriculture abounds in statistics on peasant households collectivized, on the number of tractors available, and the like. There are no data at all on the losses of livestock. These latter data the government released separately at later dates.

A notable feature of the period of the 5-year plans is the inflation in money wages. Over the 12-year period 1928 to 1940 money wage rates on the average increased on the order of 500 percent. This is according to Soviet data, for the government has not hesitated to release figures on money wages. It has not hesitated, either, to cite these figures as one more evidence of Soviet economic progress. On the other hand, it is quite inhibited regarding the measure of living costs, which is indispensable if the meaning of the money wage increases is to be adequately appraised. Publication of the Soviet official series on the cost of living ceased under the First Five Year Plan.

The government has not hesitated to release money wage rates, I should have said, until recently. In the last few years, it has omitted to publish systematic figures on this feature as well. Interestingly, there are many indications that this change in information policy has lately been associated with a change in money wage policy, in the direction of stabilization in place of the former inflation.

In the late twenties and early thirties the Soviet Government published systematic data on wage differentials. The number of workers was recorded by industry and by earnings class. Publication of this sort of data largely ceased with the release of statistics for the year 1934.

On the degree of secrecy maintained just before the Germany attack, there is at hand a very interesting measure. In February 1941 the Fourth Five Year Plan was the subject of a speech delivered by N. Voznesenskiï before the eighteenth All-Union Conference of the Communist Party. The text of the speech was subsequently published as a pamphlet of 48 pages. This is the only public release the Soviet government has made on the annual plan for 1941. As a result of the war, there is now available in this country a version of this same plan that circulated as a classified document in the Soviet Union. This is a volume of 734 pages, consisting exclusively of statistical tables. Even this classified version is not complete. Data on munitions production apparently were released only in a more restricted document.

I have said that the policy of secrecy is not new. Broadly speaking, however, it is true that the policy has become more restrictive in the course of time. An illuminating commentary is provided by the successive releases of the five year plans. The First Five Year Plan as published occupies four volumes; The Second occupies two. The third was released in one volume of 238 pages. The Fourth Five Year Plan occupies three pages in Pravda.

Given the general trend to secrecy, there have been diverse oscillations. Among other things, there was an extreme blackout during the war. Since the war, data have been released on some scale both with

regard to the war and postwar years. The famous practice of releasing data on production showing only the percentage increase from year to year and not the absolute level dates mainly from the postwar years. This practice has not always been systematically applied, but still Malenkov's speech at the recent Nineteenth Congress of the Communist Party seems so far to represent something of a special case. Malenkov releases a good deal of data in absolute terms.

What then, are the guiding principles of the Soviet policy of secrecy? In any full account of this complex question, no doubt, it would be necessary to refer to two aspects already implied: military security and effective propaganda to create favorable impressions. Reference probably would have to be made, too, to the interesting question of the need to release data for the operation of a nationwide planning system, including the training of personnel.

Coming now to the problem of the quality of data that are released, an initial question concerns the quality of the statistical reporting to the center by lower administrative echelons: the reporting by the managerial staffs of the state enterprise and collective farms. Here it is necessary to reckon first with the fact of falsification. This is often charged, and the charge clearly is in order. On this point, we have the evidence [redacted] statements by the Russians themselves. The falsification takes various forms, including outright misstatements and improper classification; for example, the misclassification of ordinary wage payments as repair costs. The motivation apparently is to conceal illicit activities as well as to create favorable impressions generally.

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As you probably know, the planning system works down from the top to a reasonably low level and back up to the top again. When it gets down, we will say, to the head of a plant, he is typically in a dilemma: If he submits a very fine goal, that is wonderful for the time being. We will say, for the next eleven months he is going to be the fair-haired boy with the ministry back in Moscow, or a republican ministry at a republican capital. But woe betide him when the final report is in and he has only achieved 90 percent of his projected goal. He is headed for trouble in the gold mines of Kolyma. On the other hand, if he says, "I am going to stay on the safe side and put in a very conservative estimate of what I can do with this plant," he is apt to get there a year earlier! So what he does is try to strike the happy medium between setting himself too high a goal and too low a goal. He tries to play for a place in the center: a program which looks tough and constitutes an improvement on the past, but one which he can in fact exceed.

[redacted] has gone into great detail in building up the mechanism or philosophy of just how he can shade these things in order to come out with the very best batting average in tenure of office as a plant manager.

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Even assuming that you get a fairly reasonable prediction, there is also a great tendency to pad the final result by overcounting your inventory, e.g., counting goods in process as finished goods, in order to get your result the way you think it will be most acceptable to the top.

As to how extensive this falsification by lower echelons is, the Soviet statements on this subject make clear that the culprits may not always proceed with impunity. There must be on this account some limit to both the degree and the frequency of fabrication. On the other hand, given the intense pressures under which the Soviet managerial staff operates, one might suppose that it would be difficult for the government to make the limit severely restrictive. The specific evidence that has come available so far, [redacted] Soviet state-25X1
ments, seems to corroborate this general impression.

It may be hoped that in time we shall have more information on this question of the extent of falsification at the lower echelons. Doubts on this score inevitable lead to corresponding doubts as to the margin of error in Soviet data generally.

Still referring to the statistical reporting by the lower managerial staff, there must be uncertainties too as a result of limitations in managerial ability. One thinks especially here of the fact that the Russians have only recently emerged from widespread illiteracy. Very likely this was still an important factor affecting the quality of statistical reporting in the early years of the five year plans; in the case of agriculture it may still be operative on some scale.

Checking of data to assure its accuracy has a unique importance in statistical work in the Soviet Union; to find an equivalent phenomenon in this country one has to turn to the work of the Internal Revenue Bureau here in checking income tax returns for corporations and individuals. Errors of copying, calculation, and the like, of course, are no respectors of political or economic systems. But much more important sources of errors in Soviet data arise from the fact that virtually everyone reporting economic data to the C.S.A. has, or at some time may have, the temptation to benefit from false reporting. 25X1

[redacted]
suggest that a basic principle of Soviet managerial behavior is "simulating successful performance by a variety of deceptive practices."

The volume of complaints in the Soviet press, including the technical statistical organs, indicates clearly that one of the basic forms of such deception is deliberate falsification of statistical reports. Perhaps the most open admission of the wide extent of such falsification came in 1947 when the Soviet government announced the formation of a

completely new national crop inspection system in order to check the widespreading overreporting of acreages and underreporting of harvests which had taken place in 1946.

During 1951 and early 1952 the official organ of the Central Statistical Administration, Vestnik Statistiki, was full of denunciations of statisticians who accepted reports from industrial and farm enterprises without the most careful checking and physical inventorization. From these complaints, many of them voiced at statistical conferences devoted to self-criticism, it was clear that Soviet entrepreneurs engage wholesale in concealing the extent of the stocks of materials, in padding their production figures, and similar misrepresentation. Time and again the statistical workers have been told that they must end their "liberal," and "conciliatory" attitudes toward such falsification, that they must overcome the "localistic" tendencies which cause such criminals to be hidden, and that they must report to the appropriate prosecuting and police officials all such cases they find. The over-all impression given by the volume and sharpness of these comments is that the quality of Soviet statistics is poor because a substantial amount of falsification is not eradicated even from the secret reports reaching the highest authorities. The percentage error introduced into the data by such falsification cannot be estimated. It probably varies from one area of the economy to another, and may be highest in agriculture which, as the most dispersed section of economic life, is the most difficult to check.

Indicative of the lengths to which the Soviet government must go to prevent false reporting and theft is the 1951 order that every collective farm animal must be branded with a separate number so as to facilitate accounting and also to prevent collective farmers' from exchanging their own poorly fed livestock for well fed collective farm animals. In addition no report that an animal had died of natural causes is to be accepted unless the animal's corpse has been checked by a veterinary or a bacteriological laboratory and the animal's demise has been considered by the collective farm administration. Presumably this last measure is intended to check the practice of killing collective livestock for meat to be consumed by the farmers and the writing off of such animals as having died from natural causes.

In addition to deliberate falsification, the quality of Soviet statistics apparently also suffers severely from the low level of ability and the inadequate training of many statistical and bookkeeping workers. Many untrained workers are apparently employed by C.S.A. at the local level; many of those who graduate from the 8-month training courses given to prepare C.S.A. raion inspectors cannot be employed for lack of ability; in trying to check machinery and other data work is hampered by lack of technically trained people knowing these fields; poor living conditions of field workers make for appreciable turnover of personnel which is most serious in the case of highly trained personnel.

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In the course of time, Western students of Soviet economics have become aware of many other serious deficiencies in Soviet statistics. The official national income statistics, in terms of 1926-27 ruble prices, it is generally agreed, are subject to a systematic upward bias. This is on various accounts, including chiefly the practice of valuing new commodities produced for the first time after 1926-27 in terms of prices prevailing around the time of their introduction. What is true of the official national income statistics in 1926-27 rubles, is true also of other official production statistics in these terms, including data on industrial and agricultural production.

Over a period of time the Russians have revised their methods of crop reporting, so that in the case of grain, for example, harvesting and threshing losses which were once excluded have now for some time been included in official figures on the gross harvest. Yet data for different years are published in statistical handbooks without any explanation, as if they represented a homogeneous series. In Soviet writings they are usually discussed in just these terms. In effect, harvesting and threshing losses become an element in the Soviet portrait of the gains of collectivization agriculture.

Figures on employment and the wage bill in Soviet statistical handbooks seemingly are comprehensive, but it has been found that they fail to cover a sizeable fraction of the labor force. Apparently the shortfall is partly intended but it is also due partly to shortcomings in Soviet statistical administration.

The list might be lengthened, but it is already sufficiently clear that in terms of the quality of the work of collection, processing and publication, Russian statistics fall far short of what might be desired. No doubt they fall far short of the statistics of many western countries.

But in any full account of the quality of Soviet statistics, reference must be made not only to these deficiencies but also to another aspect: do the Soviets engage in wholesale deception in their statistical releases? Contrary to a common supposition, the Russians seem generally not to resort to falsification in the sense of free invention and double bookkeeping. I have already explained that there is falsification of a local sort by the managerial staffs of the state enterprise and collective farms. I am now concerned primarily with falsification of a comprehensive character at the center. It will be evident that the distinction in mind here is important.

By implication, I am distinguishing here, too, between, on the one hand, the deficiencies of the sort just referred to in the official income statistics and the like, and, on the other, outright falsification in the sense of free invention under double bookkeeping. This latter distinction, I fear, is a fine one. Almost all the deficiencies

that have been discovered lead to unduly favorable impressions of the Soviet economy. If the Russians do not wilfully introduce such deficiencies to create such impressions, they are at least notably tolerant of them.

But, granting the possible similarity in motivation, I venture to think that the distinction still is in order. For one thing, the deficiencies all appear to have a methodological character or to be due to administrative inefficiency. As such, they are conceptually distinct from falsification in the sense of free invention and double bookkeeping. In the case of the national income statistics, for example, the distortions arise because of improper weighting. In the case of crop statistics, data for different years reflecting changes in concepts are presented nevertheless as a homogeneous series. In the case of labor statistics, the coverage is incomplete, due partly to the inefficiency in statistical agencies, but this is not explained in the statistical handbooks.

For another, the distinction, I believe, is of vital importance for the study of the Soviet economy. Given falsification in the sense of free invention and double bookkeeping, research on the Soviet economy clearly is ruled out at once for all practical purposes. Given the methodological deficiencies, there is at least a core of fact from which to start and one may hope to detect and even correct the deficiencies.

On what basis, then, may we suppose that falsification in the sense explained is not generally practiced? The question is rarely elaborated. It may be of value to try to summarize in the briefest terms the main grounds for this view.

First, the data appear to withstand tolerably well checks as to their internal consistency. For example, in compiling a series of national economic accounts for the USSR, it has been found that the amount of household money incomes indicated by Soviet data checks closely with the amount of household money outlays indicated by these data. Consistency of this sort probably would be difficult of attainment under double bookkeeping, though no doubt it is not impossible.

Second, I believe a careful inquiry would reveal a broad consistency also between the statistical data and other Soviet information on the Soviet economy. For example, the release of data on the under-fulfillment of the plan in a particular industry has been followed by a report of a change in personnel in the industry concerned. This sort of consistency, too, might be difficult to maintain under double bookkeeping.

Third, there appears to be a broad consistency, too, with information of all sorts gathered by foreign observers in the USSR, as where Soviet reports of improvements in consumers goods production accord with foreign observations on the state of consumers goods markets.

Fourth, the Soviet war experience falls under previous headings but may deserve separate mention nevertheless. In terms of their own statistics, the Russians probably fought the war with an annual steel output averaging during the years 1942-45 little more than 10 million tons. Even taking account of Lend-Lease, one at least may rule out the likelihood of overstatement.

Fifth, the Soviet policy of withholding obviously is often calculated to mislead, but as so applied it appears to be more an alternative than a complement to a policy of falsification. Moreover, the Russians occasionally release adverse information. The withholding of data on livestock herds from the volume on the fulfillment of the First Five Year Plan and equally the subsequent release of these data would be difficult to understand if the Russians made a practice of falsification in any case.

Sixth and last (but not least), I have mentioned already that we have in this country two versions of the annual plan for 1941, one unclassified and the other classified. The goals in these two versions, it has been ascertained, check closely, item by item.

I have said that the published Soviet data appear to be consistent both internally and with other available information. It is necessary now to observe that there are important exceptions. But in those cases that have been carefully examined to date, it generally seems possible to understand the inconsistency simply in terms of methodological deficiencies of the sort previously referred to, and without assuming free invention under double bookkeeping. Thus, the official national income statistics in 1926-27 rubles show a rate of growth all out of proportion to rates shown by Soviet data on the production of difference commodities in physical units. But this discrepancy is explained mainly in terms of the erroneous weighting on the basis of which the national income statistics are calculated. Other inconsistencies have been explained similarly. There is no basis, then, to assume free invention and double bookkeeping.

Why don't the Russians falsify their statistics systematically? I take it that the question is entirely in order. In trying to answer it, my own inclination is to think partly in terms of the probable difficulties of operating a double bookkeeping system on a national scale without detection. No doubt, however, another factor is the

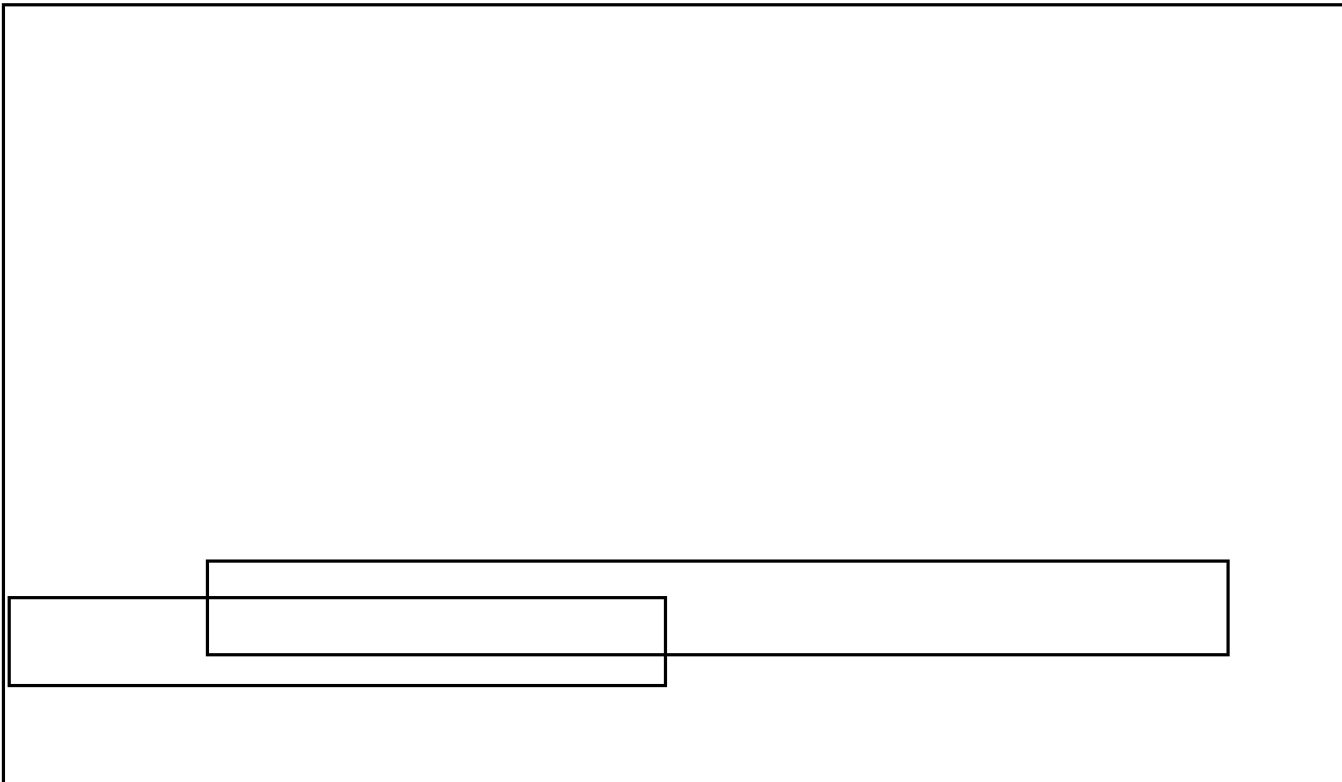
possibility of achieving major propaganda aims in any case through withholding and possibly also methodological manipulation.

But having said so much, it is necessary to say more. The view that I have outlined on falsification necessarily has a more or less provisional character. In the case of Soviet Russia, the reliability of official statistics has to be tested retested and then tested again. If some data seem trustworthy, there is no guarantee that all others are likewise.

The last caution seems especially in order today. While the Russians already were withholding much data before the war, they have been much more secretive since. Possibly, as I have suggested, the withholding is something of a testimonial to the reliability of what actually is published. But with the curtailment in releases, the opportunities for an independent appraisal have been greatly reduced. Limitations on foreign travel in the USSR have worked in the same direction. Under the circumstances, a heightened caution is in order in the use of current Soviet data.

So I am going to leave the statistics that we get from the Russians and move to the other methods we have for measuring their industrial and economic might. 25X1

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