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## PROVISIONAL INTELLIGENCE REPORT

# BRIEF GUIDE TO THE ECONOMIES OF THE SOVIET BLOC



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PROVISIONAL INTELLIGENCE REPORT

BRIEF GUIDE TO THE ECONOMIES OF THE SOVIET BLOC

CIA/RR PR-74

(ORR Project 13.344)

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FOREWORD

This report is designed for the reader who has a very general interest in the facts of Soviet economic life. It contains the necessary minimum of background information on the history, organization, and goals of the economic systems of the countries concerned and also the most recent data pertaining to the actual operation of these economies in the aggregate and in some detail. Thus it is hoped that this handbook will enable the reader to view the current economic pursuits of the peoples in the Soviet sphere with some historic perspective and some appreciation of their dynamism.

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OF THE SOVIET BLOC\*

I. Description.

A. USSR.

1. Soviet Economic Policy.

a. Role of the State.

Economic decision-making in the USSR is almost exclusively a function of central political bodies rather than a market mechanism. The concrete economic policies laid down by the central authority to channel economic activity toward the attainment of long-range goals are thus implemented directly by the state planning organs. In this way the attainment of the state's goals is not left to the market place, where consumer sovereignty could dictate a pace of industrial development and military expansion quite at variance with the wishes of the central authority.

A wide gap between the interests of the population and the government, induced by the policy of a high rate of investment and a low rate of consumption, has necessitated the extension of centralized control over an ever-increasing number of commodities and activities. Control over agricultural production was relaxed somewhat during World War II, to provide greater personal incentives, but was resumed almost immediately thereafter. In 1952, about 1,600 commodities were subject to strict priority allocation by the central authority to avoid the possibility of their being diverted into uses of lesser importance in terms of the state's economic goals.

b. Economic Goals.

The basic commitment of the Soviet economy to rapid military and industrial growth has necessitated the direction of a

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\* The estimates and conclusions contained in this report represent the best judgment of the responsible analyst as of 16 August 1954.

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large portion of the country's resources into investment in the producer goods industries. This direction has been accomplished by economic policies designed to depress consumption and thereby free resources for other uses. For example, pricing policy is designed to ration scarce consumer goods by means of a huge tax component in their price, while the absence of a tax in the prices of producer goods provides the state with relatively cheap supplies of industrial materials. And collectivization in agriculture, by making deliveries of produce to the state obligatory at prices which are probably less than the cost of production, has had the same effect of depressing the real income of the rural population.

Soviet economic policy has aimed at achieving a maximum redistribution of the labor force in favor of the urban industrialized areas with a minimum expansion of investment, especially in urban housing. Housing construction as a percentage of total investment in the USSR in the prewar period from 1928 to 1937 was only about 9 percent annually in contrast to the US, where housing has ranged from 15 to 25 percent of total investment annually since 1880. In 1939, only about 43 square feet of living space per person was available in Soviet urban areas. This condition was the result of the low level of housing investment accompanied by a net movement of 25 million persons from rural to urban areas in the period 1926-39. During the postwar period, Soviet investment in housing increased to a level of 15 to 18 percent of total investment. Although a substantial portion of this increase can be attributed to reconstruction of war-damaged housing, its continuation since 1948 may indicate a more lasting change in policy.

c. Growth of Industrial Production.

The Soviet policy of allocating investment in favor of industrial rather than non-industrial sectors and in favor of producer goods over consumer goods within the industrial sector has achieved a very rapid change in the volume and composition of industrial output. This industrial revolution was accompanied by a general inflationary trend in prices beginning shortly after the launching of the First Five Year Plan in 1928. Increases in industrial wages tended to outstrip increases in labor productivity, and the demand for agricultural raw materials caused extreme pressure on agricultural prices.



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Rising prices in industry were met initially by a policy of extensive industrial subsidies. This policy continued until 1936, when the first in a series of subsidy reductions was made, accompanied by substantial upward revisions in the prices of industrial products. After the major reorganization of wholesale industrial prices in 1949, the use of subsidies in Soviet industry was partially discontinued although high-cost operations such as the timber industry and certain favored activities continued to receive them.

These pricing problems and other technical considerations make it difficult to measure realistically the actual increases in industrial production since 1928. It is probable, however, that the average annual rate of growth in Soviet industrial production throughout the First and Second Five Year Plans (1928-37) was in the neighborhood of 15 percent. In the period of the Third Five Year Plan (1938-42), several factors can be isolated which contributed to the substantial drop in the average annual rate of growth of industrial production to a level of approximately 5 percent--growth of the industrial labor force was less rapid because of inductions into the armed forces; a diversion of resources into military production from investment by its nature caused a decline in the rate of growth.

Industrial production during the war years declined absolutely as a result of the German invasion. The level of industrial output in 1946 was only slightly above that of 1935. The high average rate of growth of industrial production during the Fourth Five Year Plan (about 20 percent annually) was the result in large part of postwar reconstruction.

Over-all measures of Soviet industrial growth present an incomplete picture of the economy. Productivity growth has varied widely from one industry to another. The rate of growth of labor productivity in the basic heavy industries such as steel, metals, and machinery manufactures has been far above the average for industry as a whole. Consumer goods industries have lagged far behind the average, as would be expected in light of Soviet investment policy, given the usual high degree of correlation between labor productivity and investment growth.

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d. Problems of Inventories.

The forced rate of industrialization in the USSR has created a number of problems of disproportionate development. Industrial plant development, for example, has leaned more toward self-contained factories independent of a network of parts suppliers in order to minimize inventory and transportation requirements. Where, however, planned inventory or transportation facilities were actually inadequate, delays and bottlenecks inevitably developed. This situation could have been altered only through larger allocations of investment to the transportation system and to the building up of more adequate inventories of component parts and raw materials.

The Soviet planners have elected instead an economic course of action highly tempered with military considerations--the building up of centrally owned stocks of reserve materials subject to greater control over their release into production channels than would be the case if such materials were dispersed throughout the industrial machine in the form of larger inventories at the disposal of individual plants. The extensive Soviet stockpiling program has created a highly liquid military asset which at the same time is available for release to industry to break major bottlenecks in supply.

e. Problems of Agriculture.

The basic commitment of the central authority to a rapid rate of industrialization has considerably influenced Soviet agricultural policy. Not only has it limited significantly the magnitude of investment allocated to the agricultural sector, but the direction of that investment has been aimed toward labor-saving forms (machinery and equipment) rather than the more labor-intensive forms such as fertilizers. This policy of emphasizing mechanization, which was made possible through the collectivization program (which greatly increased the average size of farms), freed large numbers of rural workers for urbanization.

After the completion of postwar reconstruction in 1948, when industrial production generally had reached the prewar level, some shift in investment policy in favor of agriculture took place. The proportion of total investment allocated to industry declined steadily from a 1946-48 average of 63 percent of budgetary expenditure to about 45 percent in 1952. Agriculture gained a

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substantial portion of this diverted budgetary expenditure in connection with large-scale plans of afforestation and irrigation. Prior to 1948, significant expansion of agriculture to sub-marginal land was prevented by the reluctance of the central authority to provide the large amounts of capital in the form of irrigation shelter-belts, transportation facilities, fertilizers, and hybrid seed necessary to the expansion of the sown area.

The stringent Soviet agricultural investment policy has denied to this sector the possibility of altering the relative proportions of grain and fodder crops to allow for increased livestock production. The necessity for feeding the population even at the low level of consumption in the USSR precluded, during the prewar years, the more lavish use of resources required in the production of livestock. Further, in prewar years, the predominant share of livestock was owned privately by the members of kolkhozes (collective farms), who were limited in their holdings both by statute and by their ability to obtain feed. The development of livestock breeding was thus actually retarded by Soviet agricultural policy. The number of livestock, which had been greatly reduced during the early period of collectivization, did not regain the pre-collectivization level until the last prewar years. In the postwar years, especially after 1948, agricultural policy has emphasized livestock breeding on the collective farms as opposed to private livestock breeding by members of the kolkhozes, a policy which required the allocation of a large amount of investment in building animal shelters and fodder storage space. Relative prices of meat and feed grains, however, have been such as to make livestock production unprofitable. The amalgamation of smaller collectives into larger ones, which began in 1950, is partially in response to the needs of the livestock program, although statements of Soviet officials explain the policy of further amalgamation of collectives in terms of the achievement of a more rational foundation for complex, all-round kolkhoz development as opposed to one-sided production. The extent of the amalgamation which was begun in 1950 is evidenced by the decrease in the number of kolkhozes from 252,000 in 1950 to 97,000 by October 1952.

f. Problems of Geography.

Much of Soviet economic policy has been influenced by the disadvantages associated with the immense size of the Soviet land area and the unfavorable distribution of economic resources within that area. The policy of regional self-sufficiency in the

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postwar period has undoubtedly been to some degree a response to this problem, although the influence of strategic military considerations is obviously great also. The high proportion of productive effort which must be expended in the USSR to overcome space barriers has caused the central authority to lay great stress on minimizing the transport component of total costs. About 30 percent of total coal production is consumed by the transportation effort. Postwar economic policy has concentrated on the reduction of this transportation burden by developing local sources of energy and by reducing regional interdependence. The maldistribution of high-quality energy resources, however, has hindered the implementation of this policy. Soviet industrialization had increased the average length of haul of coal from 485 kilometers in 1913 to 695 kilometers in 1946. The 1950 plan goal called for a reduction to 650 kilometers.

2. The Organization and Control of Economic Activity in the USSR.

a. The Communist Party.

At the apex of the economic administration of the USSR is the Presidium (formerly the Politburo) of the Communist Party. To carry out its decisions, the Presidium utilizes the machinery of the Soviet state. On the basis of the Party Presidium's policy decisions, designed to meet what are regarded as the crucial internal and external problems which confront the nation, general directives are issued to the State Planning Commission (Gosplan), a staff attached to the Council of Ministers. Gosplan with the assistance of other agencies translates these directives into Five Year Plans and subsidiary plans which are eventually given the rubber stamp of approval by the Supreme Soviet (theoretically the highest legislative body). Virtually all economic activity in the USSR is included in the state plan. The only economic activities of any importance not included are the collective farm market, where the state does not control the price and only indirectly controls the supply, and the disposition by farmers of produce grown on their individual plots and of income in kind they receive from the collective farms.

In addition to their duties on the Party Presidium, leading members of the Party hold government executive posts in the Council of Ministers. In recent years, certain individuals who are members of both the Party and Ministerial Presidiums are responsible for several ministries and thereby control whole sectors of the economy.

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b. The Ministries.

Implementation of the state economic plans involves two basic operations: (1) allocation of resources to production, and (2) distribution of the output to various uses. These functions are performed by the economic ministries subordinated to the Council of Ministers and by the various staffs attached thereto. The ministries are of three basic types: (1) the All-Union ministries of overriding national significance, which have no counterparts in the Republics (for example, the Defense Ministry); (2) the Union-Republic ministries (for example, the Ministry of Agriculture of the USSR) each of which has a counterpart in each of the sixteen constituent republics; and (3) the Republic Ministries (such as the various Ministries of Local Industry), which are concerned with the local affairs of each republic and have no counterpart for the USSR as a whole. Recently there has been a shift in Soviet organizational doctrine from an emphasis on centralization in the Administration of Heavy Industry to limited decentralization, which has been reflected in a transfer of ministries from All-Union to Union-Republic status. Each ministry is headed by a council consisting of the Minister and several Deputy Ministers and is further divided into several main administrations (for example, for sales, supply, and production). Historically the Soviet ministerial structure has had two outstanding characteristics: specialization according to productive activity and proliferation of extra-ministerial control and verification staffs.

With the important exception of agriculture, virtually all production of goods and services in the USSR is carried on directly by state-owned enterprises. Socialized enterprises account for more than 98 percent of all industrial production, and practically all banking, transportation, and foreign trade; cooperatives account for only an insignificant part of industrial production. Education, medical care, communications, the press, and social services are all controlled by the governmental apparatus. The state distribution system accounts for practically all internal wholesale trade and for an estimated 85 percent of all retail trade. The free but restricted collective farm market accounts for the remainder.

In agriculture, approximately 85 percent of production is carried out by the kolkhozes, supposedly free associations of the peasantry for the communal cultivation of land assigned for

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use in perpetuity. Direct production by the state is limited to the state farm (sovkhoz). In addition, the state owns and operates the Machine Tractor Stations, which control the entire agricultural tractor park and the bulk of all other agricultural machinery which it rents to the collective farms. Although all productive activity on the collective farm land enters into the state plan, planning in this sector is relatively less precise, owing to the greater difficulty of control and the uncertainty of agricultural production. The peasants' attitude of antipathy to a socialized system, in addition to resentment of specific deprivations under it, has added to the poor record of performance. Thus in the agricultural sector the state plans for certain commodities, notably meat and dairy products, have been repeatedly underfulfilled.

The only remaining economic activity of any importance which the state simply regulates but does not operate or even plan is the collective farm market. This is an open market where the peasants may sell their surplus produce, which is derived primarily from private cultivation on individual plots which the collective farm members are permitted to retain. In the collective farm market the state has neither price nor credit controls.

• c. Allocation of Production Factors.

Control of the distribution process involves the allocation of land, producer goods, consumer goods, labor, and income. In the USSR all land rights are vested in the state. Agricultural land is granted to the collective farms for use in perpetuity without right of transfer. Manufacturing and extractive industries, transportation, and other enterprises receive use right to land in accordance with state plans for these activities. The use right to urban lands for non-industrial purposes is controlled by local government.

Most raw materials, the important intermediate products, investment goods, and military end items are allocated directly by the Council of Ministers in physical units. Prices of these items tend to reflect cost of production and serve as the basis for reimbursement. Each individual producer receives an allocation based upon centrally established input-output norms. Until its absorption into Gosplan in March 1953, the work of making these direct allocations and of establishing the norms was carried out by the State Committee for the Material-Technical Supply of the Economy, a staff function of the Council of Ministers. Prices are used in some

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instances to encourage substitution of one grade of a commodity for another (for example, the brown coal from the Moscow basin has long been sold at a subsidized price). In a few instances they perform the traditional role of allocating scarce resources (for example, high rates for railroad transportation), but in general, the allocating function of prices of industrial goods must be supplemented by administrative controls.

In order to direct labor into the industries and locations necessary to fulfill the state plans, various direct manpower controls are employed, two important devices being the passport system and the labor record book (both carried by every Soviet worker). The former limits the worker's geographical movement; the latter requires the approval of the local authority with every job change, and the absence of this approval usually means no housing. The labor union's role is limited to recruitment, propaganda, and administration of social security. Since 1940 the USSR has operated a labor reserve system by which those 14 to 17 years old are assigned into technical training and then to plants enjoying the highest current priorities. All these direct controls, however, have not been strictly enforced since about 1948. Labor is one factor for which price has remained the primary allocational mechanism.

d. Distribution of Production.

The system for distributing consumer goods is complex. Disregarding the collective farm market, most of the food supply produced on the collective farm is brought into state distribution channels through contractual deliveries, in part at fixed low prices (in effect a tax in kind) or is produced by state-owned food industries such as fishing and the state farms. Other consumer goods are produced by state enterprises or by producers' cooperatives. Production of the cooperatives is transferred to the state at established prices. At the retail level the price of consumer goods includes a high turnover tax calculated to absorb consumer purchasing power, given the meager supplies of consumer goods available to the population.

In the collective farm market free prices prevail. The supply, however, is erratic, since it depends on what the peasant saves out of his income in kind from the collective farm and from production in his private plot. Since transportation is limited, and since no marketing organization for such produce exists, the peasant is limited to a narrow geographical market.

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Since virtually every Soviet citizen except the collective farmer is on the payroll of the state, the state has direct control of most income. Through the system of taxation and obligatory deliveries the state has a fair degree of control over the income of the collective farm households. In recent years the state loans (compulsory interest-free loans with a lottery bonus feature) are estimated to have absorbed the equivalent of one month's salary for all wage earners. The turnover tax also absorbs a considerable portion of household income. The state collects a very substantial tax from the profits of the state-owned enterprises. The amortization allowances of the enterprises and the greater part of profits after taxes (which themselves are planned) are invested by the enterprises in accordance with the state plan. Only a small fraction of the profits accrues to the manager's fund, which may be used for various worker benefits. Collectively these sources comprise the largest part of the nation's investment funds, which are then allocated in the All-Union budget.

Foreign trade is a state monopoly, which historically has served several purposes: (1) to isolate the internal market from the external, (2) to adjust for Soviet deficiency in capital goods and materials and technical services needed for the fulfillment of plans, and (3) to serve as an instrument of Soviet foreign policy.

Through the Ministry of State Reserves the state takes control of a large inventory of material and equipment in the USSR. The functions of this inventory are to adjust for planning errors, to compensate for failure to meet production goals, to regulate the flow of resources, to insure against hoarding, and to provide a strategic stockpile.

e. Mechanisms of Control.

The lifeblood of this vast production and allocation process is information and control. The central planners have a large and comprehensive statistical reporting system. Everything from collective farm beehives to the output of steel plants is reported at frequent intervals to the Central Statistical Directorate in Moscow.

The control and verification apparatus of the state has three basic parts: the banking system, the verification and punitive ministries, and special staffs for particular purposes.

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In addition, the Communist Party organization constitutes an independent and parallel control and verification apparatus.

The state-owned banking system controls all long- and short-term credit for every sector of the economy in accordance with the plan. All working capital and investment accounts and transactions are controlled with a view to enforcing the plan. The banking system together with the cost accounting apparatus operates the monetary side of the plan to provide what is known in the USSR as "control by the ruble." The state has a similar monopoly of all banking and credit activities of private individuals.

The specialized verification ministries are exemplified by the Ministry of State Control, which has sweeping powers to investigate violations of procedure and general laxity or inefficiency throughout the economic structure. Violations may be dealt with by administrative recommendations to the central organs or by referral to the Procurator General for prosecution, or by both means. The Ministry of Justice and Procurator General are concerned with the violation of economic as well as criminal and civil law.

The Council of Collective Farm Affairs illustrates the special staff for a special purpose. Created after the war to deal with broad problems of agricultural policy and to provide continuous surveillance of the collective farms, the council was dissolved in early 1953. The Soviet extraministerial control staff resembles the regulatory Commission of parliamentary governments except that the former has punitive powers.

Finally, the Party acts as an all-pervasive organ of control and verification, penetrating the government, the secret police, the trade unions, and the collective farms -- in short, every aspect of Soviet life, economic, social, or political. The Party, of course, reports to the Presidium, which controls the entire state apparatus.

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B. European Satellites.

In most cases the European Satellites were brought into the Soviet sphere rather gradually during and after World War II. Military occupation made it possible for the USSR either to set up puppet governments or to insure dominance by the Communist Party in the leftist coalitions that controlled these countries. Since 1948 the governments of all the present Satellites--East Germany, Poland, Czechoslovakia, Hungary, Bulgaria, Albania, and Rumania--have been firmly under Communist control with little organized resistance.

The Communist Parties in the Satellites are the primary instrument for implementing Soviet aims in this area. In addition, various kinds of Soviet personnel operate within the Satellite countries, as inspectors to check production for conformity with Soviet specifications and as economic or commercial missions to maintain close liaison with the appropriate Satellite ministries. A more direct control is exercised through Soviet ownership of industrial property in these countries, either complete, or jointly with the Satellite government. In the latter case the chairman of the board of directors has generally been a national of the Satellite country, but the general manager has been a Soviet citizen empowered to negotiate agreements and to carry out banking, personnel, and other administrative transactions.

The Council for Economic Mutual Assistance (CEMA) provides the USSR with another mechanism of control over the Satellite economies. CEMA was created in 1949, apparently in part to counter the psychological effects of the Marshall Plan for Western Europe. Officially its stated purpose is to channel Soviet aid to the "people's democracies" of Eastern Europe and to promote cooperation among "equal partners of the Soviet Bloc." It has a Council and a Secretariat General located in Moscow, to which each country sends permanent delegates, who are typically high officials in the respective planning commissions. It seems clear that the CEMA has furthered the economic integration of the Bloc countries and is a potential instrument for forming and administering economic plans which embrace both the USSR and the European Satellites.

In general the European Satellites have already adopted the Soviet pattern of economic organization and techniques of administration. Long-term trade agreements have furthered their integration into the Soviet orbit. There is little doubt that the plans of the Satellites reflect the broad goals established by the USSR.

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C. Communist China.

Chinese Communist economic policy is directed toward rapid development of industrial and military power on the Soviet model. The difficulties which the Communists face in achieving their goals for industrialization are considerable. China is predominantly an agricultural country and most of its income comes either from agricultural production or from processing and trading in agricultural products. The Communists consider that the present economic organization of society represents a transition period to socialism, in that cooperatives and private enterprises continue to function but under the general direction of the state along with state-operated and joint state and private enterprises. While Communist China is still far behind the other countries of the Soviet Bloc in this regard, Communist control over the economy has increased rapidly in the few years since 1949 when the Communists took over the whole of the China mainland.

In 1949 the Communists were confronted with an economy which had been strained and disrupted, not only by the preceding four years of civil war but also by the earlier Sino-Japanese war and the loss of Manchuria. From 1945 to 1949, Manchurian output was far below the level that prevailed during the period of Japanese occupation, as a result of the Russian removal of key items of industrial equipment as well as destruction and disorganization during the civil war. A period of hyper-inflation had also had its effect. By the end of 1950 the Chinese economy was subjected to the additional strains of the Korean War and the drastic reduction in trade with non-Communist countries. On the other hand, during the period from 1950 to 1952 China, for the first time since the early 1930's, experienced the relative political stability of a single government. The Communists also had the benefit of the large investments in heavy industry, transportation, and electric power that the Japanese had made in Manchuria.

Over-all output of goods and services increased by 6 percent from 1950 to 1951, by nearly 8 percent from 1951 to 1952, and by 7 percent from 1952 to 1953. The general increase in output was accompanied by a reorientation of trade from the West to the USSR. By 1952, output in nearly all sectors of the economy was restored to the highest pre-Communist levels (which in China proper had occurred in 1936, in Manchuria in 1943). Agricultural output was still slightly below the level attained in 1936. In iron and steel production, in railroad transportation, and in the production of military end-items, 1952 output was well above pre-Communist levels.

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The Communist government exercises an increasing degree of direct control over the economy. According to the communique released by the Central Statistical Bureau:

Of the 1952 total value of output of state-owned and private industry, state-owned industry accounted for 50 percent, joint state and privately owned industry for 5 percent, cooperatives for 3 percent, and private industry for 42 percent.

In the producer goods industries, state-operated enterprises produce 80 percent of all output. All railroads, airlines, telecommunications, and most of the shipping is owned by the state; moreover, much privately owned industrial production is under direct government contract. Little banking is undertaken by other than state banks and then only under strict state supervision.

The government also exercises considerable direct control over trade. In 1952 one-half of all trade was carried on by state trading companies or cooperatives, while 80 percent of grain and agricultural products was handled by state trading companies. International trade, which is subject to strict export and import controls, is for the most part handled by state organs.

Communist control of agriculture is exercised via a direct control over most trade in agricultural products and also through the political control of Communist cadres. Chinese Communist policy relating to the organization of agricultural production may be divided into three distinct stages: land reform, the present mixed policy of encouraging various types of cooperative cultivation, and the collectivization scheduled for the future.

The land redistribution program of 1949-50 enabled the Communists to consolidate their political power with no serious interruption of production. In order to maintain output, rich peasants were not liquidated, although some of them lost part of their land along with those landowners who were completely dispossessed. The program of land reform, involving as it did smaller land holdings, and bringing about a more equal income distribution, reduced the margin between production and consumption and thus inhibited capital accumulation. This made the peasant more dependent on the government or other sources for credit and assistance. About 40 percent of farm households have been organized for some form of joint economic action.

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About 8 million mutual aid teams have been organized, which pool draft animals and implements for important field tasks. In 1952 there were about 4,000 producer cooperatives, a form of association in which land is cultivated jointly and returns are apportioned according to the land, labor, and equipment contributed. There are only about 23 collective farms in all China.

After a period in 1950 when prices continued to rise sharply, a reversal of price movement occurred, and by the end of 1951 the price level for consumer goods was very little above that prevailing at the end of 1950. Producer goods prices continued to rise during 1951, but by 1952 the price level had apparently been stabilized.

The budget has served as the apparatus for determining the aggregate volume of saving, for there is probably very little private investment. In 1951, expenditures for defense, for investment, and for education and propaganda were double those of 1950. In 1952 military expenditures remained at about the same level, but investment again doubled, while expenditures for education and propaganda increased by two-thirds over their 1951 level. About 73 percent of gross national product in 1952 was devoted to consumption, and of the remainder about half went for government expenditures for military forces and administration and the other half for state investment. (See page 24, below for similar data on the Soviet economy.)

The grain tax takes between 20 and 25 percent of the total value of the main crops and serves as a fundamental source of government revenue. The urban business taxes, which hit the private trader as well as state enterprises, are increasingly important in the Communist budget, contributing 36 percent of 1953 revenues. Two campaigns in the spring of 1952 against alleged economic vices were important steps in enforcing this tax structure and in consolidating effective control over all economic activity. Problems in balancing their budgets continued until the time of this campaign.

Revenue from state enterprises also increased from 1949 to 1952. The percentage of total revenue derived from state profits doubled between 1950 and 1952, reflecting high profits from industry and also the dominant position of the state in rural-urban trade. The importance of profits of state industrial enterprises also reflects a price structure in which the prices of foodstuffs and raw materials are much lower relative to prices of industrial products than was true before the Sino-Japanese war.

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II. Recent Developments in the Bloc Economies.

A. USSR.

1. Political Developments.

The death of Stalin in March 1953 was immediately followed by extensive personnel and organizational changes. The locus of power shifted from the absolute and arbitrary dictatorship of a single man, Stalin, to a small group of successors, none of whom has yet achieved Stalin's full powers.

Authority now rests in a group of ten men, with a highly uneven distribution of power among them. G.M. Malenkov occupies first place, with leadership in both the Party and Government, followed by N.S. Krushchev who runs everyday party affairs and dictates agricultural policy. The others in the group handle specialized fields such as foreign affairs, trade, military affairs, and so forth.

On Stalin's death, the new regime immediately reorganized the government apparatus, consolidating the number of ministries from 52 to 25 and dissolving a number of extraministerial bodies in order to concentrate broad decision-making and executive powers in a small group.

During the winter and spring of 1953-54 new ministries gradually emerged, some with the same functions which they had exercised before Stalin's death, others combined or reorganized along lines fitting more closely with the new policies of the regime. By April 1954 the number of ministries had been raised to 46, indicating perhaps the completion of an initial phase of administrative readjustment.

The authority of the new Soviet regime remains no less supreme than it was under Stalin. The Soviet political system remains a one-party dictatorship, and the enforced primacy of state interest over that of society continues to color and shape every aspect of Soviet life.

There has, however, been a significant change in the manner in which the new regime exercises its power. The regime has taken steps to improve living standards, especially in rural areas, to provide a greater measure of individual security through a more

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strict observance of legality and has reassured the people of a peaceful international policy. In addition, the post-Stalin regime has taken steps to broaden its base of support among important social groups -- military, managerial, and intellectual -- by granting them wider prerogatives and by relaxing the rigid pattern of cultural conformity. The motivation lies less in a fear of popular discontent than in a reinterpretation of the best interests of the regime and ways of implementing its long-term goals.

2. Economic Developments.

The present regime in the USSR has not changed its traditional policy of placing primary emphasis on the rapid development of heavy industry and war potential. The new regime has, however, devoted a great deal of its attention and energies to a revision of current economic plans aimed at speeding up the production of agricultural commodities, especially foodstuffs, and manufactured consumer goods. Soviet leaders have stated that this goal is to be achieved without decreasing the tempo of heavy industrial development, but defense outlays for military end items and maintenance of the armed forces, which had increased rapidly from 1949 to 1952, have remained at about the same level since then. This modification of Soviet economic programs is designed to overcome the deficiencies in the development of certain sectors of the economy, particularly agriculture, and to facilitate a more balanced growth of the economy.

a. Heavy Industry.

Although new lines of emphasis in the economy are intended to raise the output of consumer goods and agriculture, they are not on such a scale as to affect the primary focus of Soviet economic policy of building up the base of heavy industry. The 1954 plan for investment in heavy industry is quite adequate to maintain present growth rates and constitutes over 50 percent of total Soviet investment.

b. Defense Expenditures.

Defense expenditures rose rapidly from 1949 to 1952 and then through 1953 and 1954 as planned remained about the same, at a level considerably above that of 1949. The constant rise in expenditures from 1949 through 1952 was the result of a program of modernization and reequipment of the armed forces. Expenditures leveled off in 1953,

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and planned expenditures for 1954 remain at about the same level. The Soviet rulers apparently feel that the current size of the armed forces and the current rates of military production are adequate, so that additional resources can now be allocated to other sectors of the economy.

c. Agriculture.

The growth of Soviet agriculture has lagged consistently behind the growth of Soviet industry throughout the postwar period. Whereas industrial production reached prewar (1938) levels by 1948, production of foodstuffs did not reach maximum prewar levels until 1952. And while industrial production increased 230 percent from 1940 to 1952, according to Soviet statistics, agricultural production, including technical crops, rose by only 10 percent in the same period. The new Soviet leaders have recognized that a continued serious lag in agricultural growth, accentuated in the last three years, could ultimately threaten not only the food requirements of a rapidly growing urban population but also the raw material requirements of an expanding industrial economy and the agricultural export requirements of Soviet foreign trade.

In response to this situation the post-Stalin regime has embarked on a program to strengthen what has now been admitted to be a weak link in the Soviet economy. The main lines of this program were indicated in the measures announced in the fall and winter of 1953-54, which call for a sharp increase during the next few years in the production of foodstuffs and agricultural raw materials. The new program modifies some of the more pronounced shortcomings of previous agricultural policies, while leaving basically intact the existing structure of the collective farm system of agriculture. Essentially the new program represents a shift in resources and attention to a heretofore relatively neglected area of Soviet economic development.

Responsibility for the lag in agricultural output has rested on (1) the lack of experienced trained personnel; (2) the perpetually antagonistic attitude of the peasants to the collective system; (3) the lack of building materials, equipment, and fertilizer; (4) rigid systems of taxation, compulsory state deliveries, and bonus and wage payments which largely negated incentives to produce; and (5) a general lack of attention and guidance by the state and party.



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The present regime is trying to overcome these deficiencies by (1) channeling greater investment to agriculture in the form of buildings, equipment, and fertilizer; (2) increasing incentives to produce in both the communal and private sectors by raising the prices paid for obligatory deliveries and purchases of some products by the state and by lowering the amounts of obligatory deliveries; (3) providing the farms with a larger supply of qualified technicians; (4) increasing incentives for private production by liberalizing the agricultural taxation system and facilitating marketing of products; (5) channeling a larger supply of consumer goods and materials to rural markets; and (6) bringing under cultivation vast areas of semi-arid land in the eastern USSR and Central Asia.

Through these and other measures the new regime is trying to achieve a sharp upsurge in agriculture in the next two or three years. The success of this effort will determine to a large extent the success of the program to increase consumer goods, which depends heavily on agricultural raw materials.

d. Consumer Goods Production.

Since the war, investment in consumer goods industries has been given lowest priority, with requirements for defense and for the reconstruction and rapid development of heavy industry providing the chief determinants of resource allocations. In 1953 the Soviet leaders promised to increase substantially the volume of consumer goods available to the people. The commodities emphasized in the official pronouncements were foodstuffs, textiles, and consumer durables. Subsequently, it appeared that only moderate increases over original plan levels were scheduled for basic foodstuffs, textiles, and footwear, the production of which is limited by the supply of agricultural raw materials. Much larger increases are planned for consumer durables, which have traditionally been produced in small quantities. Essentially the implementation of this program requires the reversal of the persistent trend of recent years, which showed the consumption sector of the economy slipping well below plan levels as a result of priority in the allocation of resources to heavy industry and armaments production.

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The regime has initiated a series of measures to achieve revised consumption goals. Planned investment in the light and food industries and the trade network has been doubled in 1954 over 1953. Heavy industries which have customarily produced consumer durables have been directed to speed up their production of these commodities. Higher priorities have been assigned to consumer goods output in the allocation of resources and services, including transportation. Also the regime is apparently attempting to make more consumer goods available until new production capacity can be put into operation, by large-scale releases of foodstuffs from stockpiles in 1953 and by increased imports of consumer goods from outside the Bloc.

e. Implementation of the Program.

In order to provide the necessary resources of manpower and material to implement the new agricultural and consumer goods program, a series of shifts in planning have occurred, by far the most significant of which was the leveling off of defense spending. In addition, in 1953 a number of the grandiose Stalin projects, including the Main Turkmen Canal and the afforestation program, were abandoned as well as other investment projects which were not expected to produce initial returns for several years. In order to cut down overhead costs, a number of organizational and personnel changes have occurred at all levels. Measures are being taken to lower production costs and increase productivity by lowering transport charges, shifting material priorities, decreasing staffs, reweighing wage and bonus payments, and so forth. While there is considerable speculation as to whether these measures are adequate to provide the resources for the agricultural and consumer goods program in the light of the large increases planned for heavy industry, there is no doubt that the Soviet leadership is genuinely determined to carry out its new policy, which has been popularly received by a people whose living standards are little better today than they were before World War II or even before the Revolution.

B. European Satellites.

The economic plans of all the European Satellites were revised at the same time as those in the USSR. The extent of revisions varied from country to country, but in most instances they represent some reallocation of resources from industry to agriculture, from heavy industry to light industry for the production of consumer goods, and a decrease in defense expenditures.

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C. Communist China.

The first Chinese version of a five year plan appeared in 1953. No complete set of targets has been announced in connection with it, but its general goal seems to be a doubling of industrial output by 1957. In 1953, industrial production (excluding handicraft output) was raised by 19 percent over the 1952 level. Efforts under the plan are concentrated on 141 projects for which the Russians agreed to give economic and technical assistance, and of which 91 were new and 50 were under way.

There is no evidence in the Chinese Communist Five Year Plan of the greater emphasis placed on output of consumer goods which characterizes policy in the rest of the Bloc. In official Chinese Communist theory, the output of consumer goods will increase along with the over-all development of the economy, but the needs of industrialization are to be met first. If anything, Chinese Communist propaganda stresses the need for greater austerity in the coming years rather than the reverse.

The existence of planning difficulties appeared with the reduction of 1953 targets for capital construction in the middle of that year, largely because of the inability to acquire the equipment and technical assistance necessary to raise investment by 40 percent over 1952.

Not only did the 1953 capital construction program fall short of the goal set for it, but agricultural output also failed to progress as planned, remaining at about the 1952 level. Shortages of vegetable oils developed in the cities as a result of the quantities that were exported. In 1953 the Communists resorted to a program of monopoly purchase of all grain to help solve the problem of supplying the growing urban labor force and to gain complete control over the supply of food.

Plans for agriculture call for a sharp increase in the number of producer cooperatives from 4,000 to 14,000 in 1953 and 800,000 by 1957. The private commercial class is already being pressed out of existence by state ownership and heavy taxation. Private industry is already completely dependent upon the state for all important decisions, and the primary emphasis at present is to turn private enterprises into public-private jointly operated enterprises as well as to organize handicraft shops into producer cooperatives.

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III. National Accounts.

A. Gross National Product.\*

The total output of goods and services (gross national product) of the combined Soviet Bloc countries in 1953, measured in 1951 dollars, is estimated at \$212 billion. By way of comparison, at the same time the gross national product of the US measured in the same dollars was \$353 billion, or larger than that of the entire Bloc by about two-thirds, while the combined output of the US and European NATO powers -- \$513 billion -- was nearly two and one-half times greater than that of the Soviet Bloc.

The rates at which total production has been increasing in recent years have been higher in the Bloc than in the West, however, as shown in Table 1,\*\* with the result that the difference in the level of output will become smaller. By 1953, Bloc output was 37 percent above its prewar (1938) level. This ratio, however, averages the much higher level of recovery of the USSR (70 percent above prewar), one of no over-all change in output in the European Satellites (by 1953 they had just regained the prewar level), and a very small increase in the total output of China. Over the same period (1937 to 1953), total output in the US, where war-destroyed productive capacity did not have to be replaced, grew at an average annual rate of 6.3 percent to a level more than twice as high as the prewar level. (The implicit comparison between rates of growth for the US and USSR is somewhat distorted in favor of the US, however. For 1937, while the most prosperous year of the late 1930's, still was a year of widespread unemployment. Since 14 percent of the civilian labor force was unemployed in 1937, as compared with approximately full employment in 1953, the US average annual growth rate is overstated, perhaps by about 1 percent.)

During the recent postwar period, on the other hand, the rates of growth of both the Bloc as a whole and the USSR in particular have been quite spectacular. Between 1948 and 1952 the total output of the Bloc increased on the average at 8.4 percent per year, that of the USSR at 9.6 percent annually. The growth of Bloc production is impressive even in view of the fact that it was partly based on non-recurring gains;

\* Gross national product is the total value of all goods and services produced in an economy during a given period of time.

\*\* Table 1 follows on p. 23.

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Table 1

Gross National Product of the Soviet Bloc  
and NATO Powers by Principal Areas  
1938-53

	Billion 1951 US Dollars			
	<u>1938</u>	<u>1948</u>	<u>1952</u>	<u>1953</u>
Soviet Bloc	<u>155</u>	<u>147</u>	<u>202</u>	<u>212</u>
USSR	74	81	119	124
European Satellites	45	33	43	45
China <u>a/</u>	36 <u>b/</u>	33 <u>c/</u>	40	43
NATO Powers <u>d/</u>	<u>290</u>	<u>423</u>	<u>497</u>	<u>513</u>
US	165	283	340	353
Other <u>d/</u>	125	140	157	160

- a. Total output valued in US prices.  
b. 1936 estimate.  
c. 1949 estimate.  
d. Excluding Turkey and Canada.

for example, rehabilitation of war-damaged facilities, accelerated borrowing of Western technology, and conversion of plant and equipment from limited military production to full peacetime production. During the same period the total output of the US and NATO powers combined grew at the much lower average rate of 4.1 percent annually, while that of the US was increasing at 5 percent.

Since 1948 the relative difference between the volumes of production turned out by the Soviet Bloc and the West has steadily narrowed. Bloc production in 1948 was only about one-third as large as that of the West, whereas by 1953 Bloc output had risen to 41 percent. The improvement in the relative position of the Bloc economies is likely to continue, at least through 1956, while at the same time the absolute differential favoring the West will widen, but at a declining rate.

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The rapid rate of growth of Bloc economies, and especially the Soviet economy, which prevailed until 1952, declined markedly in 1953, from an annual rate of over 10 percent in the USSR for the years 1950-52, to one of 3.7 percent, as a result of the shift in Soviet economic policy described above (in Section II). The rate of growth is expected to rise again, however, as the new policy is put into effect and to level off in the USSR at about 6.0-6.5 percent annually for the period through 1956. Even this lower rate is substantially higher than the long-run average rate of 3 to 4 percent expected in the US.

B. Gross National Product by Use.

Comparisons of gross national product and long-run growth rates, however, are indicative only in a very broad sense of the aggregate productive capacities of the economies concerned. The internal composition of production is more instructive in revealing the industrial areas of strength and growth and showing how the output of the society is distributed among various component groups.

Table 2 shows the effects of the emphasis placed in the USSR on investment and defense, especially the latter in the postwar period and indicates how the expense of each fell on consumption.

Table 2

Division of Gross National Product by End Use  
USSR, Selected Years, 1938-53; US, 1953

Use	USSR <sup>a/</sup>				US
	1938	1948	1952	1953	1953
Consumption	71.5	65.7	58.9	57.8	66.7
Administration	2.5	3.0	2.5	2.5	2.6
Defense	8.3	9.1	13.0	12.9	13.6
Investment	17.7	22.2	25.6	26.8	17.7
Total	100.0	100.0	100.0	100.0	100.0

a. The Soviet data assume that one-half of the turnover tax is a non-cost element.

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Investment and defense together accounted for 39 percent of total production in 1952 compared with 31 percent in 1948. The slower tempo of the rearmament program during 1952 and 1953 shows up in the increased share of resources devoted to investment; an increase in the relative position of consumption is expected for 1954.

From the amount, in dollars, of gross national product that flows to consumption uses, it is possible to derive a very rough notion of relative living standards in the two countries. Dividing the dollar figure by the total population yields a measure of \$319 (in 1951 US prices) as the average volume of goods consumed per person in the USSR, as compared with \$2,192 in the US. The comparison is extremely rough, for differences in the quality of consumer goods, variety, ease of acquisition, and other such considerations, all of which favor the US, are not reflected.

The stress on consumer goods and a higher standard of living contained in the recent policy shift is likely to bring only small changes in the relative importance of the various uses of total output. It is anticipated that by mid-1956 consumption will account for about 59 percent of total output and defense 11 percent, compared with 58 percent and 13 percent, respectively, in 1953.

C. Gross National Product by Industry of Origin.

The relative importance of various broad categories of industry in the USSR, and the changing industrial structure over time are indicated in Table 3.\* The emphasis placed by the Soviet planners on industry (that is, production of finished producer goods, consumer goods, and military end items) and construction is reflected in the increasing relative importance of these two groups. The relative importance of industry in the USSR today is little different from that of the US. The greater relative importance of transportation in the USSR is a reflection of the larger land mass over which the interrelationships among various activities of the economy must be integrated by means of a transport network. Both the larger relative importance of agriculture and the smaller relative importance of trade and service in the USSR are sometimes cited as a reflection of the lower stage of economic development of the USSR as compared with the US. As the per capita volume of output of a market economy increases, the relative importance of primary and secondary

\* Table 3 follows on p. 26.

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Table 3

Gross National Product by Industry of Origin  
USSR, Selected Years, 1938-53; US, 1953

	Percent				
	USSR				US
	<u>1938</u>	<u>1948</u>	<u>1952</u>	<u>1953</u>	<u>1953</u>
Industry	25.3	28.2	35.9	42.3	39.9
Agriculture	46.0	36.1	30.9	19.3	5.4
Construction	3.5	4.5	5.2	6.2	4.9
Transportation	5.5	6.7	7.6	8.8	6.0
Communications	0.5	0.9	0.9	1.1	1.3
Trade	4.5	6.5	5.2	6.0	16.5
Services	14.4	17.1	14.3	16.3	25.9
Total	<u>99.3</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>99.9</u>

industries (that is, agriculture and industry) typically declines, whereas that of the tertiary industries (public utilities and the service industries) increases. Whether the relatively important role of the tertiary industries in an advanced market economy ever will characterize the planned Soviet economy, it is difficult to say. In any event, stages of economic development in two economies controlled by such diverse motivating forces should probably not be compared.

IV. Economic and Industrial Base.

A glance at the resources within the borders of the Soviet Bloc is enough to establish the fact that the USSR has at its disposal a formidable productive potential. The Bloc comprises the "heartland" of the Eurasian land mass, with a population of over 800 million, as compared to 160 million in the US and over 500 million in all of North America and Western Europe. The Bloc is entirely self-sufficient in food. Every governmental resource is being devoted to the expansion of its heavy industry; moreover, the Bloc possesses nearly all the raw materials required to keep that industry alive. The Satellite economies have been ruthlessly integrated with that of the USSR in an effort to compensate for all weaknesses in the Soviet industrial machine.

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The production of basic economic goods and services in the Soviet Bloc, however, falls considerably short of the levels achieved in the US and its Western Allies (that is, the other NATO powers together with Spain and Western Germany). In grain, the Soviet Bloc produces about the same output as the Western Allies and exceeds the US output. Meat production in the US is four times that of the USSR, while the entire Soviet Bloc produces little more meat than the Western Allies. The US and Western Allies outstrip the USSR at least 4 to 1 in energy production. The Soviet Bloc is far behind the US and Western Allies in the production of metals, and munitions expenditures are more than twice those of the USSR. In making such comparisons, however, differences in patterns of production and habits of consumption in the two countries must be borne in mind. In considering munitions expenditures, for example, the US reveals a strong tendency to substitute machines for men in its armed forces; close tolerances throughout its materiel are required; and the ratio of materiel to numbers in the armed forces is large. In the USSR close tolerances are required only when absolutely necessary for efficiency, and materiel expenditure per capita is much lower than in the US.

A. Population and Manpower.

Collectively the Soviet Bloc today includes two of the three most populous nations in the world, the USSR and Communist China. A description follows of the salient features of the population and labor force of the three broad geographical areas, the USSR, the European Satellites, and Communist China.

1. USSR.

In mid-1953 the USSR, with 212 million people, ranked third among the countries of the world, its population being 30 percent larger than that of the US. Since 1939 the population of the USSR has expanded both as the result of annexations of new territories and of natural population increases. During the war, losses of manpower in battle were balanced by gains from new territories acquired. Since the war, population gains have resulted from natural increase.

Apart from the effects of annexations and war, the Soviet population is increasing at a relatively high natural rate, although one which is only slightly higher than that of the US at present. It is estimated that in the decade after 1947 the population will increase by an average of about 1.7 percent a year. While birth and death

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rates have both declined, the excess of births over deaths has remained large and the population relatively young. While in 1939, 36 percent of the population was under 15 years of age, in 1953 the proportion had declined only to 34 percent.

The Soviet government has tried to sustain a high birth rate and has succeeded in reducing the death rate. Medical care is free and approximately as adequate as that in the US, judging by the ratio of doctors to the total population. Abortion was proscribed in 1935, and in the following year the government issued a comprehensive pro-natalist decree. This measure (a) strengthened the law prohibiting abortions, (b) provided annual allowances for mothers of large families, (c) made it more difficult to secure divorces, and (d) provided for expansion of nurseries and kindergartens.

Even before World War II the Soviet population was characterized by a surplus of women. This imbalance was intensified during the war years and is expected to prevail for some time to come. The drawing of women into the labor force, especially into skilled occupations and professions, has long been a policy of the USSR, with the result that today over one-half of the female population between the ages of 15 and 65 years is employed outside the home. By law, women receive equal pay for equal work.

In 1939 about 57 percent of Soviet citizens were between the ages of 15 and 60 years; the relative importance of this group has increased to nearly 59 percent in 1953 and will probably continue to grow for several years more. This age bracket supplies about 90 percent of the civilian labor force and armed services. Almost 98 percent of the men and 60 to 70 percent of the women in this group are in the total labor force.

Estimates of the size of the labor force in the USSR vary depending on how inclusive they are. The official Soviet data usually exclude workers in private employment, at forced labor, and in the armed forces or on collective farms, but include all others. The importance of the supply of forced labor (political prisoners and unrepatriated prisoners of war) is indicated by estimates of its size, which range from 3.5 to 12 million people. Excluding the armed forces (which are estimated at 4.4 million in 1953) and forced labor, the size of the civilian labor force in mid-1953 was estimated at 94 million people, of which agricultural employment accounted for more than half (52 million).

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The decline in the importance of agricultural employment in the total labor force reflects the stress on industrialization of past Soviet policy. In the immediate future, however, it appears likely that this trend will be reversed and the number of agricultural workers will increase as part of the recently announced policy emphasis on increased quantities of consumer goods. It is interesting to note that the new goals for food output necessitate the transfer of a large body of technical personnel from industrial to agricultural communities. During the earlier period of rapid industrialization the agricultural sector lost a large fraction of its youth to industrial centers and consequently now suffers a shortage of essential skilled workers.

Despite the larger total population, the nonagricultural labor force of the USSR is somewhat smaller than that of the US (42 as compared with 48 million in 1953), but the relative importance of employment in manufacturing, mining, and construction is approximately the same in each (about 40 percent). On the other hand, the greater geographic distances involved in the operation of the Soviet economy and the tremendous drain they impose on Soviet productive resources are revealed in the fact that 12 percent of the Soviet nonagricultural labor force is employed in the transportation industries alone, as compared with 9 percent of the US total which is employed in both transportation and public utilities.

In nonagricultural employment the declining importance of unskilled workers mirrors the effects of expanded technical educational programs. The compulsory labor reserve training program for youth was sharply curtailed in recent years as the country broadened the educational base of the entire population. Plans for 1954, however, indicate an expansion of the labor reserve training program, with emphasis on agricultural training.

Summary data on population and employment in the USSR are given in Table 4.\*

\* Table 4 follows on p. 30.

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Table 4

Population and Employment in the USSR a/  
as of 1 January 1939, 1947, 1950, and 1953

	Millions			
	<u>1939</u>	<u>1947</u>	<u>1950</u>	<u>1953</u>
Population				
Total b/	170	191	200	210
Males	82	88	92	98
Females	89	103	108	112
Civilian Employment c/				
Total b/	76	84	87	90 d/
Agricultural Labor	46	52	50	48
Nonagricultural Labor b/	30	32	37	42
Skilled	6	6		9
Unskilled	24	24		28
Engineering, Technical, and Professional		3		5
Industry, Mining and Construction e/		12		18

a. According to current boundaries.

b. Columns not additive, because of rounding.

c. Excluding military personnel.

d. As compared with 94 million in mid-1953. This apparently unreasonably large increase results from the inclusion of labor that previously had been excluded as forced.

e. Includes skilled, unskilled, and technical and professional labor.

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2. European Satellites.

The population of the European Satellites is estimated at less than half (43 percent) that of the USSR, or about 92 million people. For the decade from 1947 through 1956 the population increase is expected to be about 7.3 percent or less than half of the expected rate of increase for the USSR over the same period. On the basis of these estimates, the Satellites as a group will attain the prewar population level of about 95 million by 1956. Rates of increase for the individual Satellites range from 0 in the Soviet Zone of Germany to 22 per thousand in Albania.

The armed forces of the Satellites are estimated roughly to have numbered 2 million in 1953 as compared with 4.4 million on military duty in the USSR.

The civilian labor force of 43 million in the Satellites, as shown in Table 5,\* is nearly evenly distributed between agricultural and nonagricultural employment, the preponderance of industrial workers in Czechoslovakia, East Germany, and Hungary balancing the preponderance of agrarian employment in the others. Agriculture has been losing workers to nonagricultural pursuits since 1947; whether or not this trend continues will depend on the implementation of the new policy aiming at expanded output of consumer goods and food. A more extensive employment of women is also anticipated. Whereas 66 percent of the nonagricultural labor force of the USSR is composed of unskilled labor, the latter accounts for over 70 percent of the total in the Satellites.

On 1 January 1953 there were 4.2 million skilled workers in the Satellites, which is to be compared with 8.7 million in the USSR. There were 2.1 million in the engineering, professional, and technical group in the Satellites and 5.4 million in the USSR. The European Satellites are adopting the system of vocational training which has been evolved in the USSR. Under pressure for more highly trained personnel, they are also accelerating personnel training by shortening the time before graduation. The training system is expected to double the supply of skilled labor and of engineering, professional, and technical personnel between 1947 and 1957.

\* Table 5 follows on p. 32.

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Table 5

Population and Employment in the European Satellites  
1 January 1947 and 1953

	Millions	
	<u>1947</u>	<u>1953</u>
Population	88	92
Civilian employment		
Total	<u>38</u>	<u>43</u>
Agricultural labor	23	22
Nonagricultural labor	15	21
Skilled	3	4
Unskilled	11	15
Engineering, professional, and technical	1	2
Industry, mining, and construction	9	13

3. Communist China.

Until 1953 there had never been a census in China. A preliminary announcement of the first census indicates that China's population was about 580 million in 1953, 20 percent higher than a previous official estimate of 487 million in 1950.

For the next decade, population growth will probably depend on the degree to which the high death rate can be controlled, for it seems likely that the birth rate will remain high and relatively stable. If the country succeeds in its program for economic development and improved public health services, the growth rate might reach as high as 1.5 percent per year; with a slower rate of development, however, the population growth might not exceed 1 percent per year.

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The age distribution of the population is determined by the birth and death rates. China with its high birth and death rates has a younger population than the major industrial countries of the world. Specific information on this subject is, unfortunately, not available. One estimate, resulting from surveys, indicates that 37 percent of the population is under 15 years old, 60 percent is between 15 and 65 years, and only 3 percent is over 65 years. The sex ratio has been estimated at 110 males to 100 females. China possesses more than adequate military manpower.

Although the majority of the Chinese people live in rural areas, the total urban population is among the largest in the world. In China, about 87 million people live in cities of more than 10,000 population. In the US in 1950, about 80 million people lived in cities of equivalent size.

Of a total labor force estimated at 278 million to 329 million workers in 1953, about 85 percent (233 million to 277 million) were rural workers. Most of these, or about 75 percent (210 million to 250 million) of the total labor force, were farm workers. Farm labor is difficult to classify in China, since much of the labor is seasonal or part-time. For instance, most of the 18 million fishermen on inland lakes, rivers, and ponds probably are part-time farmers. From 20 to 25 percent of the labor force is nonagricultural, only a small part of which (possibly 3 million to 4 million) is employed in modern-type industry. In addition to this, there are probably about 20 million workers in the handicraft trades.

Available material indicates that skilled labor is as scarce as common labor is abundant. In a few categories of top level engineers and scientists there is a limited supply of foreign-trained Chinese, but in the fields needed for the development of heavy industries the supply is wholly inadequate for the proposed expansion. To remedy this lack of trained personnel, the Chinese are adopting the system of adult schools, training on the job, and vocational high schools common to the Soviet Bloc. Higher education also has been expanded, with a shift from liberal arts to technical training in colleges. The demands upon trained manpower, however, are expected to be so great as to provide a serious deterrent to the successful completion of the plans.

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B. Agriculture.

Agriculture presents a unique and complex picture in the Soviet Bloc countries. Of the approximately 800 million people living within the Bloc, about 70 percent are dependent on agriculture for their support. With its variety of climate and soil, the Bloc can grow every crop known in the temperate and subtropical zones. Farms range from the fairly modern state and collective farms of the USSR, often encompassing thousands of acres, to the tiny, hand-cultivated plots of China. At the present time, production is sufficient to permit a subsistence diet, some exports, and at least limited state reserves of food. The situation in agriculture is discussed below for each of the major areas.

1. USSR.

The USSR occupies one-sixth of the total land surface of the world, but little more than 10 percent of this area can be classed as arable, and of this arable land only about 65 percent is cultivated. Because of unfavorable climate, much of the land is unsuitable for agriculture, and most of the arable land is found in the "fertile triangle" which extends from Leningrad to Odessa to Lake Baikal. Sown acreage increased from 127 million hectares (1 hectare equals 2.47 acres) in 1930 (1930 boundaries) to about 157 million hectares in 1953 (1953 boundaries). This expansion has taken place both through territorial acquisitions and through the extension of the cultivated area into regions of erratic production. There is hardly a crop of the temperate and subtropical zones that is not grown in the USSR. Grains dominate the crop pattern. Potatoes, sugar beets, cotton, flax, feed crops, and sunflower seed are the most important non-grain crops.

Agriculture, especially food production, has been and will continue to be an area of weakness in the Soviet economy. A new agricultural program, designed in part to bolster food production, aims to bring 13 million hectares of new land into cultivation and envisages a considerable increase in the investment program for agriculture. It apparently is recognized by the new leaders that the continued failure of food output to exceed population growth or to keep pace with the rest of the economy constitutes a future threat to the economic welfare of the Soviet people and to the strategic position of the Soviet state.



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Soviet agricultural policy has been the main obstacle to increasing production. Since the Bolshevik Revolution a vicious struggle has been waged between the Communists and the peasantry. Following the disastrous attempts of the Communists to collectivize the peasantry forcibly in the early 1920's, agriculture enjoyed a period of relative independence and prosperity. But in 1928 the USSR undertook to eliminate the strange paradox that "capitalism existed in the village alongside socialism in the city," with a vigorous renewal of the collectivization program. By 1940, 20 million farm households, constituting 97 percent of the peasant population, had been amalgamated into 236,000 collective farms. Further amalgamation reduced the number of collective farms to 94,000 by 1953.

At present, collective farms account for over 90 percent of total Soviet agricultural production, state farms accounting for most of the remainder. State farms are operated by the state, with the farmers being paid fixed wages. Collective farms represent a pooling of the land and labor-resources of many small peasant farms. Theoretically, a collective is a democratic institution, governed by charter, but the obligations required of the farmers are such that the collective has become merely a tool whereby the state not only controls the peasantry but also assures itself of the major portion of agricultural production. Each worker is paid according to the amount and type of work performed, measured in "labor days," the value of which depends upon the productivity and income of the individual collective. Each household has a private garden plot and the right to maintain a specified number of livestock. Because of its capitalistic nature, the garden plot and privately owned livestock have been a primary source of concern on the part of the regime. The eventual liquidation of rural capitalism, with the resultant complete dependence of the peasant upon the income of the collective farm, is a goal of the Communist Party of the USSR.

As a source of savings, Soviet agriculture during the past two decades has been forced to carry a considerable portion of the burden of the industrialization of the country. Extensive mechanization, use of mineral fertilizers, irrigation, and improved agro-techniques have resulted in only modest increases in over-all agricultural production during the last 15 years. The output of certain industrial crops has increased, however, reflecting the special emphasis the government has placed on them. Sugar production has decreased from 2.48 million metric tons in 1938 to 2.3 million metric tons in 1952, and cotton has increased from 731,691 metric tons

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in 1938 to 874,000 metric tons (ginned basis) during the same period. Grain production increased slightly from 88.2 million metric tons in 1938 to 91.2 million tons in 1952, then declined to 80.7 in 1953. Production of potatoes, vegetables, and livestock, however, lagged seriously and has not kept pace with the growth of the population. As a result of great losses suffered during the collectivization period of the early 1930's and as a result of World War II, production in some sectors such as livestock (chiefly cows) is even less than it was in 1928.

Mechanization released millions of workers for other industries. Machine Tractor Stations (MTS's) were set up to service the needs of the collective farms. Tractors in the MTS's increased from 66,000 15-horsepower units in 1930 (1930 boundaries) to 1 million 15-horsepower units in 1952 (1952 boundaries). Production of other agricultural machinery also increased during this period. The large increases in agricultural output the Russians had envisioned through mechanization, however, did not materialize, because of the inefficient use of the machines. In 1950 the output of work per 15-horsepower unit was only about the same as in 1937, despite marked technological improvements. Use of chemical fertilizers has increased from 228,000 metric tons in 1928 (1928 boundaries) to about 4 million metric tons in 1952 (1952 boundaries).

Although during the 1952-53 consumption year the available food supply in the USSR was sufficient to provide about 2,800 calories daily per capita, over 65 percent of the food base is represented by grains. There is a paucity of meat and dairy products, which comprise less than 5 percent of the diet.

During the past few months, significant shifts in agricultural policy in the USSR have occurred. The struggle for the immediate liquidation of the private garden plots has been relaxed temporarily, and production of livestock and vegetables is being encouraged by a series of measures, including the following:

a. A greater emphasis on material incentives: procurement prices for livestock products and vegetables have been increased, taxes on private plots have been lowered considerably, and slight tax exemptions granted to encourage the farmers to obtain livestock.

b. Investment in machinery necessary for the cultivation of vegetables has been increased.

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c. Agricultural loans to provide more buildings and barns on the collective farms.

d. Individual responsibility, especially on the part of tractor drivers, designed to increase machine productivity.

e. Improvement in agro-techniques -- more chemical fertilizers, improved seed stock, and more agricultural and live-stock specialists.

In general, it can be said that the USSR produces sufficient food and industrial crops for its own use, given a low standard of living. Despite the noted insufficiencies, the agricultural economy has risen from a half-primitive to a fairly modern status since 1928. Sown acreage has just about reached a peak, and the USSR proposes to achieve subsequent increases in production by increasing yields through a greater use of chemical fertilizers, by greater mechanization, and by irrigation and improved agro-techniques. With appropriate priorities the USSR may be able within the next 5 or 6 years to achieve partially its goals of providing more and varied food to the populace and sufficient raw materials to the industrial plant.

2. European Satellites.

The transformation of farming in Eastern Europe from small independently owned plots to large socialist enterprises in the form of collectives and state farms has been a primary aim of the Communist governments established since World War II. The rate and extent of socialized farming, however, varies considerably among the Satellites. The percent of agricultural land farmed by the socialist sector ranges from approximately 18 percent in East Germany to about 60 percent in Bulgaria.

Agriculture has presented the Communist governments with the most thorny problems in their attempt to nationalize the production facilities of the Satellite economies. In implementing their ambitious industrialization programs, the Satellites are dependent upon agriculture to supply needed manpower and a large share of the exports required to finance imports of machinery and raw materials. The methods used by governments to release agricultural manpower to industry and obtain a sizable share of the indigenous production have been compulsory delivery quotas and

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collectivization. This policy has had the over-all effect of depressing agricultural production despite the provision for increased output in the plan.

Notwithstanding Communist concern for increased production, agricultural output has not yet attained prewar levels. Lack of natural and chemical fertilizers, shifts of population, and the general apathy of the peasantry brought on by collectivization contribute to low productivity. Grains dominate the crop pattern, although considerable emphasis is being given to industrial crops, mainly sugar beets.

As a direct result of government policies and adverse weather conditions, livestock numbers in the Satellites, like crop production, have not reached prewar levels. Numbers of the primary meat-producing animals, cattle and swine, have suffered especially. Slaughter weights are also considerably below the prewar level. As a result a serious shortage exists for the industrial population in meat, fats, and dairy products. The primary emphasis of the recently adopted "new course" as it pertains to agriculture is placed on improving animal husbandry.

The mechanization of agriculture has been emphasized in the Satellites, but with slight success. Numbers of tractors and complementary equipment have increased, but not to the extent called for in the plans. To foster and support collectivization, the mechanical draft power base must be increased. This fact was revealed in the self-criticism contained in the recent announcements by most of the Satellites of the "new course" for agriculture. Increased emphasis will now be given to supplying agriculture with more machinery to relieve the labor and draft power shortage during the next 2 to 3 years.

The immediate outlook for an increase in agricultural production and food supply in the Satellites is not very favorable, despite the fact that investments and incentive goods are to be increased and compulsory delivery quotas reduced. Cereals will continue to constitute the major share of the diet of the population; and meat, fats, and oils will remain in short supply.

S-E-C-R-E-T3. Communist China.

Chinese agriculture is characterized by too many people on too little land, under-capitalization, intensive cultivation, and primitive technology. At least 80 percent of the 580 million people in China live on the land. The arable land of China probably does not exceed 357 million acres, or 16.7 percent of the total land area, and the cultivated area is estimated at 272 million acres. Thus there is somewhat less than 0.5 acre of cultivated land per person. To increase yields, much of the cultivated land is irrigated. Cereal grains, potatoes, and other foods derived from plants constitute 85 to 90 percent of the total food supply. In most areas of China, little is provided beyond the minimum daily caloric intake necessary for survival, and the diet is usually deficient in one or more of the nutritive elements essential to health. Chinese agriculture, moreover, is extremely susceptible to the vagaries of nature. Much of the agricultural production is concentrated in river lowlands, where it is subject to floods. Drought frequently occurs in the plains of North China, typhoons often ravage the coastal areas, insect pests are numerous, and insecticides are virtually unknown.

The Chinese Communist "land reform" program has been a revolution from above, organized in the villages by cadres of professional Communist revolutionaries. As a result of this "reform" the average size of the Chinese farm has been slightly reduced, and the acquisition of capital equipment has become even more difficult than before. The Communists have encouraged several forms of mutual cooperation in agriculture. The cooperative forms range from seasonal pooling of labor with no change in ownership of land or implements to joint farming of pooled land holdings with common ownership of some implements and draftpower. Ownership of the land even in all cooperative forms except the collective is still retained by the individual.

The burden of the agricultural tax in kind (levied at progressive rates) is believed to be heavy. It is estimated that 30 million metric tons of grain are collected in taxes each year and 10 million tons in addition through the compulsory purchase program. This represents one of the most important sources of income to the state: the grain tax provides the food for the cities and the armed forces, and the principal source of foreign exchange. It is believed that the agricultural sector accounts for as much as 75 percent of the exports of Communist China, the bulk of which is used to pay for imports of capital goods from other Soviet Bloc countries.

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The Chinese Communists, however, have two solid achievements to their credit: (a) they have energetically continued certain Nationalist-initiated flood control and irrigation projects, such as the Hwai River project, and have begun others, with a consequent increase in the total irrigated area, and (b) they have improved the transportation system so that surpluses can be shifted to deficit areas. In 1952, production of the major agricultural crops approximated prewar levels. Table 6 shows the production of major crops in Communist China, 1949-52.

Table 6  
Production of Major Crops in Communist China  
1949-53

	Thousand Metric Tons				
	<u>1949</u>	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>
Grains <u>a/</u>	104,310	107,810	106,840	112,361	111,786
Potatoes <u>b/</u>	24,500	28,987	31,490	34,221	31,035
Cotton <u>c/</u>	370	529	653	618	724

- a. Grains consist of rice (paddy), wheat, oats, corn, millet, sorghum and other grains, kaoliang, and barley.  
 b. Potatoes are approximately 85 percent sweet potatoes and are not on a grain-equivalent basis.  
 c. Cotton as shown here is on a ginned basis.

Collectivization of agriculture remains the explicit objective of the Chinese Communist Party. Apparently it will be delayed for some time, almost certainly until the next Five Year Plan, which should begin in 1957. One must presume that the cost of collectivization in lost production and in human lives would be even more appalling in China than in the USSR.

In attempting to increase the productivity of Chinese agriculture the Chinese Communists face a difficult problem. With the exception of irrigation and flood control measures, the Chinese Communist actions to date probably have tended to aggravate rather

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than to ameliorate the basic difficulties. It is highly unlikely that the planned increases in production over the next few years will be achieved. Also, it is doubtful whether the Chinese Communists will have available the resources necessary for mechanization for a good many years, perhaps a decade. Unless its position in natural resources improves greatly, it is highly unlikely that in the near future China will be able to support the degree of mechanization of agriculture which prevails in the USSR.

C. Industry.

The development of the industrial base of the USSR and especially of large-scale industry has been the primary goal of the Soviet planners. As the Satellites and China were brought into the Soviet orbit, a similar goal emphasized their industrial development. The pattern followed has initially placed greatest importance and highest priority on heavy industry and producer goods as a means toward the end of ultimate self-sufficiency and industrial and military power. In the USSR the 1930's were devoted to the accumulation of basic capital equipment, especially through imports, with concomitant emphasis on technical training of the labor force. The USSR may now be in a position to go forward with rather more balance in the production of consumer and capital goods and with primary reliance upon their own resources. The future pattern can be expected to show relatively more emphasis on the development of basic materials, including energy, required to support their own industrial machine. The current "new course" indicates a special effort to equip and expand consumer goods industries in the immediate future, a change which may prove to be a temporary political expedient, or an evolutionary shift toward consideration of consumer welfare. In the following sections the industrial base of the Bloc will be described under the headings of energy, metals, building materials, chemicals, manufacturing, and military end items. Table 7\* shows trends in the production of selected commodities together with a comparison with US output.

1. Energy.

The potential energy resources of the Soviet Bloc are adequate to support sizable increases in industrial capacity on a long-term basis. Coal is the main source of energy of the Bloc countries.

\* Table 7 follows on p. 42.

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Table 7

Production of Selected Commodities in the Soviet Bloc a/\*

Commodity	Units	USSR			European Satellites	China	Total Bloc	US 1953
		1938	1948	1950				
<u>Agricultural Food Products</u>								
Grain (bread and coarse)	Million MT	88	74	82	35	64	174	135
Meat	Thousand MT	3,465	2,191	2,737	1,714	5,750	10,924	10,430
Potatoes	Million MT	74	78	72	46	31	143	10
<u>Energy and Transport</u>								
Coal (anthracite and bituminous)	Million MT	114	150	191	115	69	412	435
Electric Power	Billion KWH	40	64	90	62	9	204	514
Petroleum Products	Million MT	26	25	33	14	1	61	251
Rail Transport	Billion TKM	384	468	612	111	77	987	901
<u>Metals and Minerals</u>								
Ingot Steel	Thousand MT	18,000	19,000	27,000	9,000	2,000	49,000	101,000
Primary and Secondary Copper	Thousand MT	115	230	275	61	11	422	968
Primary Aluminum	Thousand MT	44	135	170	58	2	370	1,136
Refined Lead	Thousand MT	69	76	100	90	14	272	484
Refined Zinc	Thousand MT	78	81	115	149	6	340	881
<u>Building Materials</u>								
Cement	Thousand MT	5,703	6,600	10,200	11,148	4,000	31,199	45,030

\* Footnotes for Table 7 follow on p. 44.

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Table 7  
Production of Selected Commodities in the Soviet Bloc a/  
(Continued)

Commodity	USSR			European Satellites	China	Total Bloc	US
	1938	1948	1950				
<u>Chemicals</u>							
Synthetic Ammonia	265	335	435	461	41	1,037	2,074
Sulfuric Acid	1,520	1,590	2,040	1,211	200	4,161	12,875
Mineral Fertilizer	3,235	N.A.	4,790	N.A.	N.A.	N.A.	N.A.
Synthetic Rubber	56	90	143	68	Negligible b/	274	862
Chlorine	85	135	215	294	7	596	2,537
Caustic Soda (100 percent basis)	126	190	277	404	44	835	2,959
Nitric Acid (100 percent basis)	230	820	1,035	433	22	1,650	1,604
<u>Manufacturing</u>							
Trucks	180	164	301	40	Negligible b/	386	1,213
Tractors	49	57	104	36	Negligible	156	146
Motors and Generators	N.A.	N.A.	3,583	2,693	904	8,655	16,685
Machine Tools	54	59	79	52	8 b/	148	N.A.
Electron Tubes	N.A.	162	300	294	Negligible	1,160	7,333

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Table 7  
Production of Selected Commodities in the Soviet Bloc a/  
(Continued)

Commodity	Units	USSR				European Satellites	China	Total Bloc	
		1938	1948	1950	1953			1953	US 1953
<u>Military End Items</u>									
Aircraft	MT (airframe weight)	N.A.	29,800	30,000	41,800	2,160	0	43,960	68,200
Artillery	Units	11,000	14,307	13,997	12,800	600	1,200	14,600	c/
Artillery Ammunition	Thousand MT	544	231	327	624	18	14	656	2,182

a. Detail will not necessarily add to total, because of rounding.  
b. Deduced.  
c. US production in units is reported on a select basis only:

Self-propelled artillery 930  
Artillery  
75-mm antiaircraft 358  
105-mm howitzer 1,629  
57-mm rifle 5,000 (approximate)

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Although known deposits of coking coal of good quality are considered insufficient, reserves of anthracite and bituminous coal and lignite are huge and are adequate for almost any conceivable future need.

The long-term goal for the production of all types of coal in the USSR is 500 million metric tons by about 1960. Total Soviet Bloc output of anthracite and bituminous coal in 1953 was 412 million metric tons, of which 55 percent was produced in the USSR, 28 percent in the Satellites, and 17 percent in China. From 1938 to 1953, production in the USSR increased by 100 percent from 114 to 228 million metric tons. In the Satellites during the same years the production of coal increased at a much lower rate from 90 million to 115 million metric tons. This production, 51 percent that of the USSR, was confined mainly to the Silesian coal fields, which are divided politically between Poland and Czechoslovakia. China in 1953 produced 69 million metric tons of hard coal, about twice as much as Czechoslovakia. The 1953 Bloc production of lignite totaled 339 million tons, a rate which was nearly  $1\frac{1}{4}$  times that of 1938. East Germany provided 51 percent of the 1953 output, the USSR 27 percent, and Czechoslovakia and Hungary most of the remainder. In the European Satellites, consumption of brown coal is nearly twice as large as that of hard coal.

The emphasis on liquid fuels in the USSR is indicated by the present announced intention to double approximately the crude oil distillation and cracking capacity between 1950 and 1955 and, during the same period, to increase the production of petroleum by 85 percent. In 1953, the production of petroleum products in the USSR was approximately 45 million metric tons, 75 percent of the Bloc total. This quantity represents an increase of 75 percent over the 1938 Soviet output. The European Satellites, principally Rumania, accounted for substantially all of the balance, with only token production occurring in China. Approximately 2 million metric tons of shale oil and synthetic fuels are included in the 1953 output of petroleum products. East Germany produced about 1.5 million metric tons of this total, with the USSR, Czechoslovakia, and, to a lesser extent, China accounting for the balance.

Soviet emphasis on the development of sources of electric power dates from the announcement of the Goelro Plan in 1921; its continuation is indicated by the stated long-run goal of 250 billion kilowatt-hours to be met between 1960 and 1965. In addition, there is the long-range undeveloped hydroelectric potential of the Bloc

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(excluding China) that is approximately ten times the foregoing, of which the Satellites would account for only about 2 percent. In addition China has a hydroelectric potential of about half that of the USSR.

Of the total Bloc electric power production in 1953, 65 percent was produced in the USSR, 30 percent in the Satellites, and only 5 percent in China. The Soviet output more than doubled between 1938 and 1953, to 133 billion kilowatt-hours, about 15 percent of which was hydroelectric power. The European Satellites produced 62 billion kilowatt-hours in 1953, almost half as much as the USSR. East Germany was the largest of the Satellite producers, with Poland next. Output in China for 1953 has been estimated at about 10 billion kilowatt-hours.

2. Metals.

Since 1928 the growth of metals production in the USSR has been impressive. By 1951, despite the effects of the war, production had increased almost tenfold over 1928. As a result of the ambitious investment program, the concentration on heavy industrial production, and the growth of over-all industrial activity, metal supplies in general seem to have remained tight. The position in specific metals, however, is subject to considerable variation. Neither the European Satellites nor China has so well balanced a position as the USSR, but they do produce substantial quantities and, in a number of important cases, serve to round out the supplies of the Soviet Bloc as a whole.

Production of steel, copper, and aluminum has been growing steadily throughout the postwar period. Although these materials are scarce resources in any economy, quantities of these metals and minerals produced in the USSR have been adequate to support the industrial program of the postwar period and also to permit the accumulation of a substantial pipeline and stockpile (in the case of copper and aluminum). Steel production is growing at about 3 million tons per year, and both copper and aluminum have expanded substantially during the postwar period. As a matter of fact, nonferrous metals production has been growing faster than production in other sectors of the Soviet economy. Nonferrous metals output is increasing by about 20 percent each year, whereas the total economy is growing at only 6-7 percent per year. Between 1951 and 1957, aluminum production will have more than tripled. The USSR

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has moved from a period of extreme shortage and careful husbanding of aluminum in 1940-48 to a position of relative abundance in 1953, as has been evidenced by increasingly more sizable allocations of this metal to consumer goods industries.

Steel is naturally a major item of interest on the part of the Soviet planners. The USSR has announced a long-run goal for 1960 calling for 50 million metric tons of pig iron and 60 million metric tons of steel. In 1953 the USSR accounted for 79 percent of Soviet Bloc production of ingot steel, having increased output to 38 million metric tons from 18 million metric tons in 1940. European Satellite steel production, which was 9 million metric tons in 1953, was concentrated in Czechoslovakia, Poland, and East Germany. These three countries accounted for nearly 90 percent of Satellite production. Chinese production was 1.6 million metric tons in 1953, and it is on the increase.

In 1953, the estimate of primary and secondary copper production in the Soviet Bloc was 422,000 metric tons. The USSR is the major source, having produced 350,000 metric tons in 1953, or 83 percent of the Bloc output. This represents a tripling of output over 1938. The European Satellites contributed 61,000 metric tons, or 14 percent, of the total Bloc output.

Aluminum, in addition to its use in the aircraft industry and for long-distance electrical transmission, can serve adequately in many instances as a substitute for copper. The USSR in 1953 accounted for 86 percent of the total Soviet Bloc production of primary aluminum, with an output of 310,000 metric tons. The European Satellites' production, 58,000 metric tons, was divided between Hungary and East Germany. It is significant to note that more than 50 percent of the supply of bauxite available to the USSR in 1952 was derived from nonindigenous resources. Hungary supported the Soviet deficiency and provided the total supply for the rest of the Bloc.

The Soviet Bloc countries are interdependent for supplies of a number of other metals. The USSR is the primary Bloc source of the alloying materials necessary for high-quality and special steels, and is practically the only source of nickel, cobalt, and manganese, although Czechoslovakia and Rumania produce minor amounts of manganese. Albania produces slightly more than 10 percent of the Bloc supply of chromite, with Bulgaria and Rumania providing minor amounts of this

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material. China produces 70 percent of the Bloc supply of tungsten and something like 10 percent of the total Bloc supply of both molybdenum and vanadium, the USSR accounting for the balance. Tungsten is particularly important both for itself and in partial substitution for possible deficiencies in molybdenum. Vanadium is similarly of some importance as a substitute for cobalt. There is some indication that cobalt and nickel are in short supply in the Bloc as a whole.

Zinc and tin illustrate very well Soviet Bloc interdependence. In 1953 the Bloc produced an estimated 339,000 metric tons of zinc, divided equally between the USSR and the Satellites, Chinese production being insignificant. The USSR accounted for 55 percent of Bloc production, and the Satellites 44 percent. Tin production in the Bloc, at 22,000 metric tons in 1953, was divided between the USSR and China, with outputs of 11,000 metric tons each.

3. Building Materials.

The expanding production of cement, a key construction material, reflects the vast building program which is in progress in the countries of the Soviet Bloc. Since 1940, Soviet production of cement has increased nearly threefold. In 1953 the USSR accounted for 51 percent of the 31.2 million metric tons produced in the Bloc. Satellite countries accounted for 36 percent of this output, while China produced the remainder. Since significant quantities of cement are shipped to the USSR from the European Satellites and China, the above production data do not reflect accurately the relative volumes of construction in each sector of the Bloc.

4. Chemicals.

Although a relatively new industry, the chemical industry has grown rapidly in the USSR, and it exhibits, on a smaller scale, the intricacy and technical complexity of the industry in Western countries. Production of basic chemical products has been and will continue to be adequate to meet the more important demands of the economy. That portion of the chemical industry which supplies the direct requirements of military forces, such as ammonia and nitric acid, has a substantial capacity. Since the USSR has no natural rubber, its needs must be met by domestic production of synthetic rubber and by the import of natural rubber from Southeast Asia.

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Rubber production plus imports has met the immediate needs of the economy and permitted the accumulation of a natural rubber stockpile almost equal to a year's total rubber requirement. On the other hand, although fertilizer production has increased considerably above prewar and early postwar levels, the relatively low rate of growth of fertilizer production is paradoxical in view of the pressure being put on agriculture for more food products.

Soviet production of sulfuric acid more than doubled between 1938 and 1953, when output was 2,750,000 metric tons. In 1953, production in the USSR was 66 percent of the Soviet Bloc total of 4,161,000 tons, with a substantial proportion of production (29 percent) being contributed by the Satellites. Czechoslovakia, East Germany, and Poland were the major Satellite producers. Insofar as sulfurous materials are concerned, the USSR probably is self-sufficient, but the European Satellites seem to depend largely on imports from the West.

Production of chlorine in the USSR increased from a negligible amount in 1930 to 295,000 metric tons in 1953. The Satellites, primarily East Germany, produced the same quantity as the USSR while China's output was negligible.

Caustic soda production follows a similar pattern in the Soviet Bloc. The Satellites outproduced the USSR in 1953, accounting for 404,000 metric tons, or 48 percent of the Bloc total; 387,000 metric tons, 46 percent, was produced in the USSR; and the remainder, 44,000 metric tons, was produced in China.

On the other hand, the USSR was the major producer of nitric acid in 1953, contributing 73 percent of the 1.6 million metric tons produced in the Soviet Bloc, with 26 percent produced in the European Satellites.

Except for one synthetic plant in East Germany, the USSR is the only important producer of rubber in the Soviet Bloc. In recent years the Bloc has imported substantial quantities of natural rubber. Out of the total of 171,000 metric tons imported in 1951, 64,000 tons went directly to the USSR. The USSR also received a considerable part of the 74,000 tons imported by Communist China.

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Synthetic production is the main indigenous source of rubber in the Soviet Bloc. In 1953, the USSR produced 75 percent of the 274,000 metric tons of synthetic rubber produced in the Bloc. East Germany produced practically all of the rest, of which a large part went to the USSR.

5. Manufacturing.

Prewar growth of Soviet production of machinery and equipment was much more rapid than general industrial growth. Output increased sevenfold between 1928 and 1937. After the war the 1937 level was regained in 1947-48, and production has since increased to the point that in 1951 it was 17 times greater than the output in 1928. During the same period (1928 to 1951) the output of the light and textile industries increased only about 2½ times.

The quality and quantity of machinery and equipment production have been the mainstay of the Soviet economy's rapid rate of industrial growth. The USSR has, in the postwar period, placed great emphasis on this production in an effort to strengthen its industrial base. Increased output of trucks and tractors, important especially in industry, agriculture, and the armed forces, was considerable throughout the postwar period. Production of these items in 1953 was double the prewar level, and projected rates of increase indicate a growth of 3 to 4 percent per year for vehicles and 10 to 15 percent per year for tractors. Production of industrial equipment such as machine tools and motors and generators has also shown a consistent rate of expansion. Growth in the production of machine tools has been more modest (about 3 percent per year) but, again, consistent. The production of motors and generators has grown more rapidly, with an increase of about 12 percent per year.

The major impact of the new economic program will be felt in the near future in the manufacturing sector, despite the expanded agricultural investment program. The effect is manifest in (a) increased output of consumer durables and semi-durables, and (b) a change in the proportions of investment -- in a shift in the share of investment away from the production of items to be used in heavy industry (such as rolling mills and heavy generators) to items to be used in consumer goods industries (such as food processing equipment and textile machinery).



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In 1953 the Soviet Bloc produced 157,000 tractors, 386,100 trucks, and 205,000 freight cars, principally in the USSR. The European Satellites, mainly Czechoslovakia and East Germany, produced 36,000 tractors, 40,000 trucks, and 60,000 freight cars. In 1953 the USSR produced about 430,000 GRT of merchant vessels, including all types and sizes.

In other important categories, the European Satellites accounted for a sizable proportion of the total production of the Soviet Bloc. This area in 1953 accounted for 52,000 of the 148,000 machine tools, 8 million of the 24 million kilowatts of electric motors, 1.7 million of the 5.9 million kilowatts of electric generators, 1,135 of the 3,336 steam locomotives, and 195,000 of the 667,000\* gross register tons of merchant ships produced in the Soviet Bloc. The contribution of the Chinese Communists in these categories was limited to an estimated 8,000 machine tools and 102,000 gross register tons of merchant ships.

6. Military End Items.

Production of military end items in 1953 tended to be concentrated in the USSR. The USSR completed 130,000 standard displacement tons of naval vessels, while the rest of the Soviet Bloc including Communist China completed only 10,000 tons. The Soviet output of 13,000 artillery pieces was the major Bloc contribution of this item; about a thousand pieces were produced by China and 600 pieces by Czechoslovakia. Most of the Bloc production of ammunition was similarly concentrated in the USSR.

D. Transportation.

1. USSR.

Before the war the increase in the volume of rail and water transport facilities outstripped the rate of industrial growth in the USSR. The great distances involved and the relatively adverse distribution of resources created large demands for transportation facilities. This growth has taken place despite the regional self-sufficiency policy of the USSR, which has as one of its aims the "bringing of industry closer to the sources of raw materials and to

\* 1951 data.

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the consuming areas in order to eliminate an uneconomic and excessively long freight haulage."\*

Soviet railroads carried about 85 percent of the total volume of ton-kilometers of freight movement in the USSR in 1953; 11 percent was carried by water and 4 percent by highway. Increased use of the recently opened Volga-Don Waterway and other smaller water routes contributed to the more rapid increase of freight carriage by water than by rail during the year 1950-52. Estimates of freight traffic in the USSR from 1950 to mid-1956 are given in Table 8.\*\*

a. Railway Transport.

There is evidence that during 1953 plans for an expansion of the railroad net were cut back and greater emphasis placed on better maintenance and improved efficiency of the existing lines. So far, however, no improvement of operating efficiency has been evident. The average length of haul and the turnaround time of freight cars has remained static. The one notable change that will contribute to efficiency is the increased carrying capacity of freight cars resulting from the discontinuance in 1953 of manufacture of 2-axle cars and the construction instead of 4-axle cars. The USSR entered 1953 with about 861,000 freight cars\*\*\* of which more than half (53 percent) were 4-axle units. Production during 1953 is estimated at 70,000, all of which were 4-axle cars. If this trend is maintained to mid-1956, the additional 4-axle cars will probably satisfy the greater tonnage rail transport requirements of the economy. Rail transportation connecting the USSR with the European Satellites, on the one hand, and Communist China, on the other hand, is complicated by transloading or by the provision of special arrangements such as adjustable axles made necessary by the differences in gage.

b. Highway Transport.

For long hauls of freight, motor transport has never been significant in the USSR, primarily because of a lack of good roads and shortage of equipment. For local hauls, however, highway

\* Balzak, Vasyutin, and Feigin, Economic Geography of the USSR, New York, Macmillan, 1952, p. 137.

\*\* Table 8 follows on p. 53.

\*\*\* All data relating to the number of freight cars are in terms of 2-axle units.

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Table 8

Freight Transportation in the USSR  
by Major Carrier Type  
1950 to Mid-1956

	Billion Ton-Kilometers			
	<u>Rail</u>	<u>Inland Water</u>	<u>Maritime</u>	<u>Motor</u>
1950	612	45	38	20
1951	677	51	41	25
1952	747	57	44	28
1953	799	64	49	31
1954	843	71	54	34
1955	877	79	60	37
1955-56	890	83	62	40

transport provides a valuable supplement to rail and water movement, and recently there has been considerable improvement of roads in various city districts. Since the number of passenger automobiles is negligible, the chief function of highways is to facilitate freight movement.

c. Maritime Transport.

The increasing importance of the Soviet merchant fleet in support of the Chinese Communist economy represents a primary change in Soviet maritime pursuits during 1953. Previously, Soviet vessels in the Far East operated primarily only between the Soviet Far East and Chinese ports. Now, however, several Soviet vessels are making a number of round voyages on the Europe-China route carrying goods between the Western Satellites and China, where, formerly, Polish vessels were the only Bloc bottoms used.

The USSR in 1953, as in every year since the close of World War II, added a number of merchant vessels to its expanding merchant fleet. In addition to domestic construction, at least 25 ocean-going vessels of about 11,000 gross register tons (GRT) were delivered by foreign shipyards (chiefly in Finland and Poland). The most significant expansion of the fleet was in tankers. By January

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1954 the tanker fleet had expanded from 34 in mid-1953 to 41 vessels aggregating about 160,000 GRT.

Continuous efforts to improve the operating efficiency of the Soviet merchant fleet have won little success. Inland water as well as maritime transport is subject to excessive delays in port because of inadequate facilities.

d. Inland Water Transport.

One of the most significant developments in inland water transport in 1953 was the establishment of additional river services to handle the transport of consumer goods. Forty-seven regular river lines were reported to have been added to handle consumer goods traffic, and new stopping places on the more important routes were established. Inland water transport efficiency and planning throughout the USSR, however, suffer from 3 inherent difficulties: (1) the short duration of the operating season, (2) the reluctance of many shippers to use such a slow form of transport, and (3) the seasonal nature of cargo availability.

2. European Satellites.

The European Satellites were rather well endowed with transport capacity when they entered the Bloc. In recent years, lack of adequate maintenance of freight cars and railroad beds, motor trucks and highways, and inland water fleets caused a deterioration of the transport net at a time when increasing demands were being placed upon it. Recently new freight cars have been added at a rate which is considered adequate to offset forced retirements and also permit a slight increase in inventory. It is believed that railway systems are operating close to capacity, with only a small margin for traffic expansion. Both the inland water and ocean transport capacities of Poland are heavily utilized. In East Germany, the poor condition of the inland water fleet and the reluctance of many shippers to use water transport results in a low capacity usage. The poor condition of trucks and shortage of replacement parts in the Bloc area are responsible for a rather limited utilization of highway transport.

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3. Communist China.

The existing rail net which the Communists acquired when they obtained control of China was located primarily in the north and east, with few long extensions to the west. New construction since then has been concentrated in the west. When projects currently underway are completed in 1957, Communist China and the USSR will be connected by 2 more lines, which will markedly increase the capabilities of the USSR to move goods to China. Chinese railroads are probably the most intensively utilized of any in the Bloc, which fact represents a major weakness in the rail system, since the absence of excess capacity permits of no expansion of volume. Rolling stock is apparently in good repair, but rail replacement may be behind schedule. Most main trunk lines have only a single track. Although the existing railroad net is adequate to handle present tonnage, the industrial expansion planned for the next five years would tax the main lines in industrial areas. Double-tracking on these lines could remove this potential bottleneck, but no such tracking plans have been noted.

Although the mainstay of the Chinese transport network has traditionally been provided by its inland and coastal waterways, it is estimated that inland and ocean transport currently account for about 10 percent of the total of ton-kilometers carried. The decline in the importance of water traffic, which has been absolute as well as relative, is partially explained by the fact that the Communists have used rail lines to transport manufactured goods wherever possible, including those which have traditionally been carried over water routes. Then too, the reorientation of traffic to a north-south flow has been followed by incomplete utilization of the existing transport capacity of rivers which serve primarily an east-west movement.

Since assuming power, the Communists have united the Chinese transport network to a degree never known before in China. Highway construction is being planned in conjunction with the development of rail and water routes to facilitate the movement of goods in interior areas. In addition, highway construction in the Northwest is being pushed to provide links with the USSR and also in the south to provide or strengthen links with Indochina and Tibet. Soviet technicians are involved in all the important construction projects, and most of the new roadbuilding equipment is of Soviet make. Road maintenance is well organized but not extensive at present.

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E. Services.

Consumer services in the USSR are primarily provided by the government. In some cases, fees or contributions are paid by the individuals who consume the services, although most are provided gratis. The most extensive services, available to nearly the entire population, are in the fields of education and social insurance, including medical care.

At present, 7 years of education are compulsory for every child, and it is hoped that by 1960 this will have been extended to 10 years of compulsory primary and secondary education. The first 7 years are completely free of charges; for training beyond this, certain fees are charged, but they are so small in relation to stipends and scholarships that they are not believed to have any considerable limiting effect on the numbers acquiring a higher education.

The Soviet regime has always stressed the importance of education, although technical instruction has been emphasized at the expense of a more general training. Educational facilities have been expanded rapidly and continuously at all levels. College enrollment, for example, has increased from a level of about 600,000 full-time students before the war to 1,100,000 now.

Social insurance in the USSR takes the form of a comprehensive scheme covering all the chief risks of life that result in loss of earning power or exceptional expenditures. The entire charge is borne either by the state or local governments or by the business enterprise, without contributions by individuals. As such, the system adds considerably to the value of money incomes, perhaps increasing the latter by about 30 percent. All employed persons, wage and salary earners and agricultural workers as well as those in industry, participate, although benefits payable to non-trade union members are generally lower than those to members.

Health and medical facilities form part of the system, as well as old age pensions and such special benefits as disability payments, funeral expenses, children's aid, rest homes, and assistance to travel. The unemployment benefits which bulk so large in the social security schemes of other countries are not needed in the USSR, where the attempt to fulfill ambitious production plans has strained the supply of all resources, including labor.

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Health and medical care is available both to earners and to their families and includes, besides the services of a general practitioner, those of specialists, together with hospitalization, medicine, and hospital facilities.

Old-age pensions amount to 50 to 60 percent of the "normal" wage of the worker and are payable at the age of 60 to men and 55 to women, whether or not the worker has retired from employment. The qualifying period is 25 years of employment for men, and 20 years for women, but in order to qualify for the full pension fairly rigorous conditions relating to the length of consecutive service must be met.

F. Foreign Trade.

The long-standing policy of autarky of the USSR implies as a goal the elimination of all Soviet dependence on trade with the non-Communist world. Although trade between the USSR and the West has experienced a long-run decline in relation to Soviet gross national product, the composition of trade between the USSR and the non-Soviet world has remained relatively constant, comprising an exchange of Russian food and raw materials for Western manufactures, primarily heavy machinery. More recently, however, within these broad categories, exports of gold, petroleum, and certain metals have increased in volume; imports of consumer goods have increased somewhat also, as have orders for machinery to be used in consumer goods industries and merchant ships.

The lack of expansion in the volume of trade between the Soviet Bloc and the non-Communist world which has prevailed since 1950 may perhaps in part be attributed to the imposition of controls over exports of strategic goods to the Bloc on the part of the US and its allies in that year. Whether, however, the recent (summer of 1954) relaxation of these controls will result in an increasing volume of East-West trade in the future, it is impossible to forecast. Against the apparent desire of the Bloc to expand its rate of procurement of certain commodities must be balanced the scepticism of certain Western groups as to the ability and willingness of the Bloc countries to provide steady outlets and payments for Western goods. And the desire in some Western business circles to expand their markets in the East must be balanced against the opposition of certain governments to an expansion of trade with the Bloc on grounds of strategy and

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national security. Sales in Communist markets would probably become far more attractive to non-Communist businessmen should the level of business prosperity in the West decline markedly.

Large sales of Soviet gold in Western European markets, which began late in 1953 and are still continuing, have occasioned much speculation as to their cause. The reasons were probably several including a subtle form of pressure on Western countries for a removal of their restrictions against East-West trade. Whether, however, Soviet gold sales will continue to be maintained at the higher level is a moot question.

Meanwhile, the trade between the USSR, European Satellites, and China has experienced a rapid growth. The USSR has become a major supplier of agricultural and industrial raw materials and finished goods to the Satellites and has taken a major portion of the high-quality industrial exports of certain Eastern European dependents. From China the USSR also receives exports that formerly had been shipped to the West -- agricultural products and industrial raw materials. Since the Soviet Far East is not self-sufficient in agricultural production, these supplies are especially welcome. In return, the USSR exports war materials, heavy machinery to enlarge Chinese industrial capacity, raw materials for these industries, agricultural machinery, iron and steel, petroleum, and paper.

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