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PROVISIONAL INTELLIGENCE REPORT

POSTWAR DEVELOPMENTS
IN LOCAL AND COOPERATIVE INDUSTRIES
OF THE USSR



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POSTWAR DEVELOPMENTS IN LOCAL AND COOPERATIVE INDUSTRIES
OF THE USSR*

Summary

Local and cooperative industries of the USSR, which currently produce about 25 percent of the consumer goods made or processed by the Soviet ministries specifically charged with the production of consumer goods, doubled their level of production during 1950-55. The recent Soviet trend toward increased production of consumer goods, a trend which includes larger budgetary allocations for investment in local industry, has made more evident the increasingly important role of local and cooperative industries in the economic structure of the USSR.

Local and cooperative industries in the USSR produce goods for local requirements out of local raw materials and the waste products of state industries. The present Soviet emphasis on these industries is based not only on the need for consumer goods but also on the Soviet desire for a greater degree of regional self-sufficiency, an obvious advantage in wartime. Any substantial increase in the production of local industry would lessen the demands now being made on the strained transportation system. In addition, the greater production of locally made goods would permit the allocation of more centrally located supplies to the highest priority projects.

To increase the capacity of these industries, a budgetary allocation of 810 million rubles was included in the "consumer goods" decree of 28 October 1953 for investment in the various republic Ministries of Local and Fuel Industry and Ministries of Local Industry. In addition, the Central Union of Producers' Cooperatives was granted 1,188 million rubles for capital investment in 1955, an amount one-third greater than the 1954 allocation. Local industry and producers' cooperatives in the USSR plan capital investments of 3 billion rubles in 1955 as compared with investments of 2.5 billion rubles in 1954.

* The estimates and conclusions contained in this report represent the best judgment of ORR as of 1 July 1955.

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The products of local industry in the USSR are of poor quality and limited variety. Local industry has high production costs, low labor productivity, dated equipment, limited production facilities, and few skilled labor services. These conditions are the result of the traditional Soviet desire to increase production in this sector with a minimum of productive resources.

I. History.

Soviet local and cooperative industries and their predecessors, the craft and cottage industries of Tsarist Russia, have always played an essential role in supplying consumer goods needed in local communities of the USSR. 1/* Even as early as 1917 the Supreme Council of the National Economy (SEC) had begun encouraging the growth of both producers' and consumers' cooperatives. Because of the increasing government control over agricultural commodities and other raw materials, individual craftsmen and small artisan workshops were forced to resort to collectivization in order to obtain raw materials to continue operation.

By 1927, producers' cooperatives in the USSR included 183 unions composed of 13,500 artels with more than 1 million members. 2/ In 1941 the direction of producers' cooperatives was placed entirely in the hands of the Council of People's Commissars of each union and autonomous republic and the executive committee of the oblast or Council of Workers' Deputies to which were subsequently attached directorates of producers' cooperatives. 3/ In 1946 the control of producers' cooperatives was centralized by the formation of the Chief Directorate for Producers' and Consumers' Cooperative Affairs attached to the Council of Ministers, USSR. The task of this organization was to coordinate activities of both consumers' and producers' cooperatives (including the cooperatives of invalids) in order to effect a more rational exchange of available foodstuffs and consumer goods between urban and rural populations. In late 1950, however, their

* For serially numbered source references, see Appendix C.

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administration was split, and the Central Union of Producers' Cooperatives, USSR, took over the direction of all types of producers' cooperatives, including the republic unions of invalids', metal-working, and woodworking cooperatives, and the like. 4/ In mid-1953 an even tighter organization of producers' cooperatives was effected by the merging of the various types of republic unions into a single union in each republic. 5/ Currently, much emphasis is being placed on the drive to specialize and mechanize artels for the more economical output of individual items. 6/

At the XVII Party Congress in 1934, it was decreed that People's Commissariats of Local Industry should be established in each of the union and autonomous republics. Small-scale enterprises, which had been nationalized in 1920 and administered badly since then, were placed under these new commissariats, whose principal assignment was to produce consumer goods out of raw materials available in the area in which they were operating. During the period from 1934 to 1940, local industry received aid in the forms of materials, equipment, and central budgetary allocations. 7/ A decree of 7 January 1941 established detailed procedures for the financing of local industry, thus making it dependent upon loans from the various banks and not upon further central allocations of nonreturnable funds. 8/ During World War II, local industry and cooperative enterprises provided the bulk of consumer goods to the population. Many enterprises, particularly in the Ukraine, became inoperative or were destroyed. 9/

Both the Fourth (1946-50) and the Fifth (1951-55) Five Year Plans called for the rapid expansion, mechanization, and specialization of local industry in the USSR. Local industry was given additional assignments for the production of consumer goods for the market. Raw materials and centrally allocated funds were again made available to local industry for the carrying out of these new assignments. 10/ The re-emphasis on heavy industry in late 1954 and early 1955 has effected a corresponding re-emphasis in the Soviet press on the necessity for further development in the production of consumer goods by local industry from local raw materials. 11/

The purpose of local and cooperative industries is to accomplish the greatest possible regional self-sufficiency in satisfying consumption and servicing needs by exploiting a region's own production and

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raw material resources. Local industries and cooperatives in the USSR have not been dispersed according to population distribution or on the basis of availability of resources. Instead, before World War II these industries were concentrated geographically as shown in Table 1.

Table 1

Distribution of Local and Cooperative Industries
in the USSR ^{12/}
before World War II

Region	Local Industry	Producers' Cooperatives
Central and Northwest	53	48
Ukraine	20	21
Siberia, Urals, and the Far East	5	7
Other	22	22
Total	<u>100</u>	<u>100</u>

In 1951, local and cooperative industries were still concentrated in western USSR, but the development of a network of local enterprises in the Volga region, the Urals, Siberia, and the Far East is being stressed. ^{13/} The land reclamation projects as well as the efforts to accelerate the development of heavy and light industry in Central Asia have required the fuller growth of local and cooperative industries in the area, ^{14/} and the necessity to build up the public servicing and repair facilities in Central Asia have been particularly stressed. ^{15/}

II. Structure.

The fundamental structures of state local industry and of producers' cooperatives in the USSR are similar. Both Ministries of Local Industry and producers' cooperatives are subject to centralized control, and the same plurality of subordination exists for both.

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A. Producers' Cooperatives.

The Central Union of Producers' Cooperatives, USSR, under the Council of Ministers, USSR, established in late 1950, administers the republic Unions of Producers' Cooperatives. 16/ Each of the 16 republics has its own Union of Producers' Cooperatives, which is subordinate to the republic Council of Ministers as well as to the Central Union. Each autonomous republic also has a Union of Producers' Cooperatives, which is under the direction of the Council of Ministers of the autonomous republic as well as of the republic Union.

Under the republic Union of Producers' Cooperatives operate the oblast or kray unions (oblpromsoyuz or kraypromsoyuz), which are at the same time subordinate to the executive committee of the oblast or kray Council of Workers' Deputies. Subordinate to these unions are branch unions (oblastnyye soyuz) which unite the actual producing units, called artels, under one jurisdiction. The branch unions are administered by the rayon or city executive committees as well as by the oblast or kray unions. The number of branch unions varies according to the size, population, and resources of the oblast or kray, but the number of oblast or kray unions in the republic is, of course, the same as the number of such regional divisions in the republic. The number of artels of a branch union varies according to the size and population of the area under jurisdiction, the availability of materials, and the extent of specialization and mechanization of the individual artels. The artel may be a single workshop, or it may be a number of small shops or household producing units.

From 5 to 7 persons are required to constitute an artel. Members joining an artel or forming one are expected to pool their equipment and materials and to agree to the bylaws determining their rights, duties, and responsibilities. An artel is registered with a branch union according to its field of production and thus becomes eligible for obtaining credit, raw materials, and technical and organizational assistance from the oblast or kray union. A new member joining an artel must pay dues amounting to his anticipated average wage for 3 months. In practice, however, membership dues are most frequently collected by withholdings from the member's monthly wage. Any tools or raw materials which the member contributes to the artel are credited to his membership dues. An artel elects its own board of directors and its representatives to its branch union. An elective board of directors of the branch union in turn elects delegates to the

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oblast or kray union, and the board of the republic union is elected by the oblast or kray union. 17/ The board of the Central Union of Producers' Cooperatives, USSR, is elected by the ballot of the delegates to a congress of producers' cooperatives of all the republics. 18/

Supply and sales operations of producers' cooperatives are coordinated by each republic Union of Producers' Cooperatives and administered by the supply and sales office in the oblast or kray unions and in the branch unions. 19/

B. Local Industry.

Ministries of Local Industry were established in each Soviet republic in 1934. 20/ These republic ministries, having no union republic counterparts, are directly subordinate to the Council of Ministers of each republic.

Each republic Ministry of Local Industry coordinates the direction of all local industry enterprises, which are classified as republic-subordinated, oblast-subordinated, or rayon-subordinated. Republic-subordinated enterprises are usually the largest and most important enterprises of the network and are administered either directly by the ministry or through trusts which are controlled by the ministry.

Ministries of Local Industry are also established in the autonomous republics. These ministries are under the jurisdiction of the Council of Ministers of the ASSR as well as of the republic Ministry of Local Industry.

The basic organizational form for the direction of enterprises of rayon subordination is the rayon industrial combine (raypromkombinat). Such combines are subordinate to the rayon executive committee of the Council of Workers' Deputies and engage in such operations as production of a wide assortment of basic consumer goods, repair operations, production of construction materials, and the processing of such items as fish and fruit. They are also subordinate to the oblast or kray departments of local industry.

Moscow and other large cities of republic subordination which have a growing and varied local industry have rayon trusts of local industry in place of rayon industrial combines. The largest enterprises, such as the Moscow City Textile Industry Trust or the Moscow

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City Woodworking Trust, are united in city trusts. Local industry in Moscow also includes rayon combines for servicing and repair operations and rayon trusts and combines for servicing, which are subordinate to the executive committee of the rayon Council of Workers' Deputies and to the department of local industry of the executive committee of the Moscow city council.

C. Other Control Organs of Local and Cooperative Industries.

The activities of local and cooperative industries in the USSR are also guided by other organs of the Soviet government, such as the Gosplan; the Ministry of Finance, USSR; the Ministry of Industrial Consumers' Goods, USSR, and its union republic ministries; and the Ministry of Internal Trade, USSR, and its union republic ministries.

1. Gosplan.

Planning of the production of local and cooperative industries in the USSR was decentralized by the decree of 7 January 1941 ^{21/} and placed in the hands of the primary producing units -- that is, the artels of producers' cooperatives and the enterprises of local industry. The central planning organ, Gosplan, through its regional offices is the ultimate authority, however, in the planning for local and cooperative industries, and the general pattern of Soviet planning is followed.

2. Ministry of Finance, USSR.

To the Soviet state financial institutions, Gosbank and the specialized banks, is assigned an important role in the administration of local and cooperative industries -- "control by the ruble." ^{22/} Procedures for the financing of the local production operation and of cooperative industries which cannot be executed out of local working capital were established by the decree of 7 January 1941. ^{23/} By another decree of 9 November 1946, crediting operations by the banks for local and cooperative industries were extended to include investment as well as the manufacturing process. Local and cooperative industries were thus given opportunities for expansion and development far beyond what they could have achieved out of their own limited resources. The banks, particularly Gosbank, control not only credit but also use of credit. They approve or deny credit according to the profitability of a venture. This system of financial

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control extends the influence of banks into such phases of the operations of local and cooperative industries as the execution of their assigned production goals, the proper use of raw materials, the suitability of seasonal purchases, and their general financial status. 24/ Most crediting operations are conducted through the regional office of the banks, which deal with the petitioning enterprise. The interest on loans and the terms for repayment are set according to the type of loan, the amount borrowed, and the identity of the borrower. If loans are for more than a specified amount, they must be requested by the republic Union Producers' Cooperatives or Ministry of Local Industry. 25/ The particular bank to which a request for a loan should be submitted is determined by the type of organization requesting the loan and by the use to which the funds would be put. 26/

3. Ministry of Industrial Consumers' Goods, USSR.

The Ministry of Industrial Consumers' Goods, USSR,* and its republic ministries also influence the operations of local and cooperative industries. This ministry is concerned chiefly with the textile, knitwear, footwear, and garment industries. Because both local industry and producers' cooperatives have an effective share in all these industries, the coordination of their separate efforts is necessary.

With regard to producers' cooperatives, the Ministry of Industrial Consumers' Goods exercises its influence through Gosplan. The assortment and amount of textile, knitwear, footwear, and sewn articles produced by the Unions of Producers' Cooperatives are determined by agreement between this ministry and its republic ministries, Gosplan and its officer, and the Unions of Producers' Cooperatives. 29/

The Ministry of Industrial Consumers' Goods, USSR, and its republic counterparts also influence the operations of the Ministries of Local Industry, also chiefly through Gosplan. 30/ With regard to the Ministries of Local Industry of the RSFSR and the Ukrainian SSR, however, the method of control is direct. Light industry enterprises -- that is, those producing textiles, footwear, knitwear, and sewn articles -- are under the jurisdiction of the appropriate chief directorate or territorial directorate of the Ministry of Industrial Consumers' Goods. 31/

* Up to 1953, called the Ministry of Light Industry. It was merged in March 1953 with the Ministry of Food Industry, USSR, into the Ministry of Light and Food Industry, USSR. 27/ In the fall of 1953 the industries were again separated and reconstituted as the Ministry of Industrial Consumers' Goods, USSR, and the Ministry of Food Industry, USSR. 28/

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4. Ministry of Internal Trade, USSR.

Since mid-1953 there has been an increased emphasis on a fuller exploitation of the potential of the commercial network of the USSR for influencing the production activities of local and cooperative industries. Trade workers have been told to participate in inspection teams to check the quality and assortment of output of local and cooperative industries and to refuse goods which do not meet specifications. 32/

III. Labor Force.

The number of workers employed by local industry and producers' cooperatives in the USSR since World War II has steadily increased, but employment by local industry has increased much more rapidly. Although increases in employment by local and cooperative industries are apparent, a distinct trend indicates that the number of enterprises and artels of local and cooperative industries is decreasing, as shown in Table 2.*

IV. Technology.

Official Soviet statements emphasize that the level of technology in local and cooperative industries is lower than in other Soviet industries. The process of bringing small-scale production operations under Soviet control destroyed much of the vigor and initiative of the sector. This factor, plus the priority concentration of the development of heavy industry, agriculture, and union light industry, has tended to keep local and cooperative industries at a low level of technology despite government encouragement and aid. The "consumer goods" decree of 28 October 1953 stated:

Many enterprises of local industry and producers' cooperatives are situated in dwelling houses and basement premises, unsuitable for the purpose of production; the workshops of a number of enterprises are scattered. A large part of the enterprises [is] poorly mechanized, [has] obsolete and unproductive equipment and [is] poorly provided with qualified personnel, which results in low labor productivity and high production costs. 33/

* Table 2 follows on p. 10.

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Table 2

Data on Labor Force and Number of Enterprises in Local and Cooperative Industries in the RSFSR and in the USSR a/
1930, 1934, 1937, 1941, and 1946-54

	1930	1934	1937	1941	1946	1947	1948	1949	1950	1951	1952	1953	1954
Producers' cooperatives, RSFSR b/													
Number of artels					11,000							11,000	9,600
Number of members					1,000,000							1,000,000	1,200,000
Number of workshops					35,000								
Local industry, RSFSR c/													
Number of enterprises		7,000										4,000	
Number of workers				145,500 (Plan)								738,800	
Local and cooperative industries, RSFSR d/													
Number of enterprises							17,000	14,000				15,000	
Number of workers												1,738,800	
Producers' cooperatives, USSR e/													
Number of artels		11,862						18,000				16,000	15,000
Number of members	1,150,000		1,000,000			1,500,000						1,865,000	2,000,000
Number of workshops			60,000									126,000	
Local industry, USSR f/													
Number of enterprises												5,818	
Number of workers				260,200 (Plan)								956,700	
Total local and cooperative industries, USSR													
Number of enterprises												21,800	
Number of workers												2,821,700	

a. Blank spaces indicate that data are not available.

b. 34/

c. 35/ The number of enterprises for 1953 was derived by subtracting the number of producers' cooperative artels from the total number of enterprises for both local and cooperative industries. The number of workers for 1953 was derived by subtracting the number of members in producers' cooperatives from the total number of workers in both local and cooperative industries.

d. 36/

e. 37/ The numbers of enterprises and of workers for the USSR for 1953 were derived in the same manner as for the RSFSR (see footnote c, above).

f. 38/

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Since the inauguration of the postwar planning period, considerable progress has been achieved toward the government aim of improving the technology of local and cooperative industries. At the same time that the assortment of goods produced is expanding, local and cooperative industries have achieved definite progress in mechanizing production processes, in amalgamating and specializing enterprises, in raising the level of skill of the workers by means of training programs, and in establishing their own raw materials base.

A. Types of Production.

The enterprises and artels of local and cooperative industries in the USSR range in size from the small basement workshop to the fully mechanized plant, but the majority have a very limited production potential. This limited potential has resulted largely from the broad scope of the operations which the local industries conduct -- mining and metallurgy; machine building for their own use or for agricultural and other nonmarket consumption; servicing, such as furniture and shoe repair and the operation of dry-cleaning establishments, beauty parlors, and public baths; retail merchandising; and the production of consumer goods ranging from necessities, such as cooking utensils, razor blades, and vodka, to comparative luxury goods, such as silk lampshades, samovars, bicycles, and radios.

B. Specialization and Amalgamation.

During the Fourth Five Year Plan, it became evident that little progress could be achieved by Soviet local and cooperative industries in increasing output, lowering production costs, and improving quality until the individual producing units could be enlarged. An article in Planovoye khozyaystvo illustrated the inefficiency and unproductiveness of the very small enterprise, as follows:

... In local industry and producers' cooperatives, RSFSR furniture production is carried out by nearly 2,000 enterprises and workshops. Out of this number there are nearly 500 specialized enterprises which produce up to 40 percent of all products. 39/

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Since 1949, 40/ both local and cooperative industries have been amalgamating and specializing small producing units. This concentration of industry was not to be carried out "by sharply increasing the scale of enterprises, but rather by centralizing the manufacture of a single product in a given enterprise ... only obtainable on the basis of the specialization of enterprises." 41/

The directives of the XIX Party Congress stressed the unsatisfactory direction of local and cooperative industries by the local Councils of Workers' Deputies. Planning commissions at the oblast level were called upon to work out planned assignments for the republic Ministries of Local Industry and the Central Union of Producers' Cooperatives for basic products and also for all items produced by individual enterprises and to promote the specialization of enterprises. The need for amalgamation and specialization of artels of producers' cooperatives is essential to any improvement in technology; the concentration of production in specialized artels would allow the use of more production equipment and more advanced technological organization of production.

Unification of various unions (the producers', timber industry, and invalids' cooperatives) into Unions of Producers' Cooperatives removed many administrative barriers. In the RSFSR, artels have begun specializing in the production of felt boots, knitwear, and wagons, and plans have been formulated for the specialization of the leather and footwear industry and the textile, metalworking, chemical, food, tailoring, and furniture enterprises. 42/ As shown in Table 2,* the number of artels of producers' cooperatives has decreased from 18,000 in 1949 to about 15,000 in 1954.

C. Mechanization.

By the decrees of 7 January 1941 43/ and 22 August 1945 44/ and by the "consumer goods" decree of 28 October 1953, 45/ necessary funds for the mechanization of production were made available to local and cooperative industries in the USSR. Despite these measures, however, the level of mechanization of the sector is still extremely low, as is illustrated in the following example cited in the fall of 1953 concerning local and cooperative industries in Gor'kiy Oblast, RSFSR:

* P. 10, above.

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... Manual labor is still widely used even in the metal processing enterprises. Suffice to say that production in local industry is only 37 percent mechanized, and in the producers' cooperatives, 40 to 45 percent. Artels lack the most elementary lathes and planers, not to mention rolling machines and special semiautomatic and multipurpose lathes. 46/

Enterprises of the republic Ministries of Local Industry have mechanized more rapidly than have Unions of Producers' Cooperatives. During the Fourth Five Year Plan, in the RSFSR alone, nearly 14,000 units of equipment were installed in enterprises of the Ministry of Local Industry, including metallurgical machine benches, forge-press outfits, and woodworking machine benches. 47/

The mechanization of enterprises of local industry has continued under the Fifth Five Year Plan, having received particular impetus since the death of Stalin. In mid-1953 it was stated:

It [local industry] has been supplanted by a large quantity of new equipment, including high-output machinery. Many enterprises which are introducing advanced machinery and copying the experience of industry under USSR jurisdiction are using multiple dies and attachments. Mass production has been introduced on a wide scale. A machine-building base has been specially created for supplying local industry with various types of general-purpose and special metal-cutting, woodworking, and forge-press equipment. 48/

Little progress in the mechanization of artels of producers' cooperatives was achieved under the Fourth Five Year Plan. An editorial in Izvestiya on the occasion of the formation of the Central Union of Producers' Cooperatives, USSR, in November 1950, emphasized the urgent need for the application of new machinery in the artels: "It cannot be considered normal that the producers' cooperatives have hitherto had no plan for technical re-equipping of enterprises" 49/

Under the Fifth Five Year Plan, discussions of the development of artels of producers' cooperatives emphasized the necessity for the expansion of production facilities before mechanization could accomplish

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any substantial increase in output. The artels of producers' cooperatives have been so small that machines could not be utilized to their fullest operative capacity. "... Specialization of footwear production will make it possible to utilize new kinds of materials and permit extensive use of stretching, nailing, and other machines." 50/ Newly constructed factories of producers' cooperatives are being equipped with modern machines. 51/

D. Inputs.

The lack of a steady and reliable supply operation for local industry and producers' cooperatives in the USSR is perhaps the factor most responsible for the inefficiency and slow technological development of these industries. The determination of the Soviet government that there should be a high degree of regional self-sufficiency in the raw material input of local and cooperative industries has been responsible for much of the waste and confusion. Local and cooperative enterprises are frequently diverted from their primary function of producing consumer goods required locally into the manufacture of articles for which raw materials are available 52/ or into filling orders for customers with their own raw materials. 53/

In the postwar period the Soviet government has been forced to supplement local raw material resources by allocating such materials as were necessary from central stocks. This allocation has been done particularly since mid-1953. 54/ In May 1954 the government announced that "in the future, local industry and producers' cooperatives will be based on locally utilized raw materials." 55/

At the same time that local and cooperative industries were receiving raw materials from central stocks, they were assigned as a priority task the establishment of their own raw materials base 56/ which could efficiently supply local enterprises and artels with all the raw materials and the capital equipment necessary to meet production assignments. This task was to include the establishment of new processing plants and extractive industries. Planning organs were advised to aid in the establishment of such a base, and union industry was called upon to give technological assistance. 57/ Some progress toward the accomplishment of this task was achieved by the end of 1953, particularly in the output of yarns for textiles and knitwear, in rolled metals, and in the processing of industrial wastes. 58/ The production of materials required for furniture production, such as veneers and varnishes, is far short of requirements. 59/

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E. Labor Productivity.

Although it is evident that the low labor productivity of local and cooperative industries in the USSR is the result of its low level of technological development, the lack of skilled labor and technicians available in the sector is another important contributing factor. Even when the machinery and raw materials available are the same as those used by union industry, output per machine by local and cooperative industries tends to be lower. In Moscow, productivity of a single machine at a knitwear combine in light industry was 6,100 outer knit garments a month, whereas the same type of machine operated in an artel of a producers' cooperative produced only 4,900 articles. 60/

Training activities by the republic Ministries of Local Industry and their trade unions and by the Central Union of Producers' Cooperatives appear to be much more broadly organized than they were in mid-1953. The Ukrainian Local Industry Trade Union in August 1954 claimed to have trained 38,000 skilled workers since 1950. 61/ In December 1954 the Central Union of Producers' Cooperatives, USSR, announced the organization of an institution of higher education with a correspondence department, the functioning of 33 colleges, and the formulation of plans for other such institutions. 62/

V. Production.

A. Gross.

Gross production of local industry and producers' cooperatives expressed in ruble value of a specified year is defined as the sum of the productive effort. Figures for the gross production of both local and cooperative industries in the USSR are higher in relation to salable output than those for other sectors of the economy. Some of the goods produced are not marketed, because of either poor quality or lack of demand. In 1948 a Deputy Minister of Trade, RSFSR, stated that "... enterprises of local industry have been able to sell a mere 26 percent of goods offered for sale, and producers' cooperatives only 29 percent. The rest of the goods do not find a market." 63/ More recent statements indicate that a serious imbalance between output and salable output still exists. 64/

By the end of the Fourth Five Year Plan, local and cooperative industries had exceeded the level of gross production in 1940 by 50 percent. 65/ During the period of this Plan the republic Ministries

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of Local Industry were assigned and apparently achieved a much higher rate of growth than producers' cooperatives. 66/ Under the Fifth Five Year Plan, local and cooperative industries were originally ordered to increase gross production by 60 percent. Since producers' cooperatives under the "new course" were told to double their 1950 production by the end of 1955, 67/ it is assumed that local industry has a similar goal. Gross production of local and cooperative industries for 1940, 1945-54, and planned 1955 is given in Table 3.*

B. Consumer Goods.

Seventy percent of the gross production of local and cooperative industries in the USSR in 1952 was in consumer goods. The ratio of 70 percent consumer goods production to 30 percent industrial production and servicing operations is assumed as constant since the prewar period. A statement in mid-1953 that local and cooperative industries in Moscow were supplying the inhabitants of that city with about 20 percent of all consumer goods 68/ indicates that the estimate of the share of local and cooperative industries in the production of Group B goods** is at least approximate. Consumer goods production of local and cooperative industries in 1940, 1945-54, and planned 1955 is given in Table 4.***

C. Industrial.

Industrial production of local and cooperative industries in the USSR appears to include the following types of output: special and multipurpose machines and instruments, such as pneumatic drills, measuring devices, and all-purpose saws; agricultural machines and equipment, such as wagons and carts, corn planters, and cane-cutters; hoisting and transport equipment; and building materials, such as bricks, cement, and hardware. 69/

D. Servicing Operations.

The majority of servicing shops and combines in the USSR are operated by producers' cooperatives. It is apparent from the sharply worded criticisms of both local and cooperative industries that repair, laundry, dry-cleaning, and other servicing facilities are completely inadequate. In 1952, only 101 dry-cleaning and dyeing plants

* Table 3 follows on p. 17.

** According to Soviet classification, consumer goods production is "Group B" goods which excludes food and foodstuffs. This classification was used in the calculation of consumer goods production by local and cooperative industries in the USSR in Table 4.

*** Table 4 follows on p. 18.

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Table 3

Gross Production of Local and Cooperative Industries
in the USSR
1940, 1945-54, and 1955 Plan

Year	Producers' Cooperatives (Billion Rubles) <u>a/</u>	Share of Total (Percent)	Local Industry (Billion Rubles) <u>a/</u>	Share of Total (Percent)	Local and Cooperative Industries (Billion Rubles) <u>a/</u>	Share of Total (Percent)
1940	28	8.4	13.29	4	41.29	12.4
1945	20.80	6.8	18.36	6.04	39.16	12.8
1946	16	6.2	12.5	4.8	28.5	11
1947	25.14	8.1	11.92	3.8	37.06	12
1948	28.63	7.3	16.10	4.1	44.73	11.4
1949	28.98	6.2	19.32	4.1	48.31	10.3
1950	31.2	5.4	24.31	4.2	55.51	9.7
1951	36.25	5.4	28.25	4.2	64.5	9.6
1952	42	5.6	32.73	4.3	74.73	10
1953	47	5.6	36.62	4.3	83.62	10
1954	55	5.8	42.86	4.5	97.86	10.3
1955 Plan	62.4	6.4	48.63	4.9	111.03	11.3

a. Wholesale prices as of 1 January 1952.

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Table 4

Consumer Goods Production of Local and Cooperative Industries
in the USSR
1940, 1945-54, and 1955 Plan

Year	Total Consumer Goods Production of Local and Cooperative Industries (Billion Rubles) ^{a/}	Share in Total Group B Production (Percent)
1940	28.90	22.6
1945	27.40	36.3
1946	19.95	23.3
1947	25.94	24.7
1948	31.31	24.7
1949	33.82	24.7
1950	38.86	24.6
1951	45.15	24.6
1952	52.31	25.8
1953	58.54	25.8
1954	68.5	26.7
1955 Plan	77.72	28.8

a. Wholesale prices as of 1 January 1952.

and 31 knitwear repair shops were operating in the RSFSR. 70/ The number of servicing shops in all of the USSR rose from over 50,000 in 1952 71/ to 60,000 by the end of 1953. 72/ Since mid-1953 the development and expansion of the servicing network has been one of the priority tasks of local and cooperative industries. 73/

VI. Capital Investment and Construction.

Local and cooperative industries in the USSR derive funds for investment in capital construction from the following sources: (1) loans from Gosbank and the specialized banks; (2) accumulations, or funds set aside from the profits of the enterprises for capital construction; and (3) central allocations of grants from the Soviet budget or from the republic budgets.

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The most important of these sources are the loans extended to the enterprises of local and cooperative industries. Provision for extending credit for capital investment by local industry and producers' cooperatives was first established by the decree of 7 January 1941, "Measures for Increasing the Production of Goods of Wide Consumption Out of Local Raw Materials." 74/ Even under this decree, reasonable terms were extended to enterprises of local and cooperative industries for the expansion or construction of enterprises and for the purchase of equipment. Another decree issued on 9 November 1946 75/ broadened the terms set forth in the 1941 decree. The "consumer goods" decree of 28 October 1953, 76/ extended still further the funds available to local industry and producers' cooperatives. According to the terms of this decree, up to 2 million rubles may be borrowed toward the construction of a single enterprise.

Provisions for the utilization of accumulations from the profit of enterprises for investment in construction were set forth in the same three decrees. The "consumer goods" decree called for a redistribution of up to 60 percent of the accumulations which had been set aside for capital construction.

Until 1954, no references to allocation from the Soviet budget for investment in local or cooperative industries had been noted since 1937. 77/ The "consumer goods" decree called for an allocation for capital investment of 810 million rubles for republic Ministries of Local and Fuel Industry and Ministries of Local Industry. The 1955 budget speech, 78/ but not the 1955 budget decree, 79/ included local industry in central allocations for capital investment. Producers' cooperatives do not appear to have shared in the centrally allocated funds for investment.

Although no attempt has been made to estimate the total investment in local and cooperative industries, information published since mid-1953 gives some indication of the extent of expenditures on capital construction.

The most inclusive statement gives the total amount assigned for capital works in 1955 by producers' cooperatives in the USSR as 1,188 million rubles, which is said to be one-third higher than the amount expended in 1954. 80/ Investment in local industry in the RSFSR in 1954 increased by 39 percent as compared with 1953. 81/ Although

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810 million rubles were centrally allocated in 1954 to all the republic Ministries of Local Industry, 82/ no information was available to give an indication of the funds available from loans and from ministry accumulation. These data, added to the many references to the completion of new enterprises and the expansion and re-equipment of old enterprises, indicate that the total amount invested by local industry and producers' cooperatives in the USSR in 1954 was about 2.5 billion rubles, and in 1955 about 3 billion rubles.

VII. Current Status and Future Trends.

In line with the recent re-emphasis on the necessity for priority development of heavy industry and agriculture and the corresponding de-emphasis on the "new course" goals for the rapid expansion of light industry, the statutory role of local and cooperative industries in the USSR -- the production of goods for the satisfaction of local requirements out of local raw material resources -- has been firmly re-established. From the death of Stalin to mid-1954, local and cooperative industries had been allocated substantial quantities of short-supply, high-quality raw materials. In May 1954 it was stated that these supplies would no longer be available to local and cooperative industries and that in the future they must be supplied by their own local raw material resources and the waste products of union industries. 83/

The end of centrally allocated materials, however, has not meant a reversion to the status of local and cooperative industries before the death of Stalin. On the contrary, the sector is evidently being accorded more high-level administrative attention than under the "new course."

One indication of the determination of the Soviet government to continue the accelerated drive to develop industry of the local type was the calling of a meeting of the Central Union of Producers' Cooperatives, USSR, in December 1954. 84/ This meeting, the first since the organization of this central control organ for producers' cooperatives in late 1950, 85/ reviewed the progress made by the unions since that time and discussed means of correcting the chronic ills of artels -- that is, poor assortment, low-quality output, and high production costs. Particularly stressed in the course of this meeting was the necessity for an increase in the production of building materials and of agricultural machinery and equipment. Participating in this meeting were Kosygin,

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who is said to have supervisory control over all consumer goods production; Mikoyan, at that time Minister of Trade; and Shatalin, Secretary of the Central Committee of the Party.

In the Soviet budget speech, 86/ Sverev, Minister of Finance, spoke at length of the potential of local and cooperative industries for further development. He indicated that besides an increase in funds for capital investment from accumulations of the enterprises, local industry would again receive a central allocation for capital investment in 1955. The decree of the Soviet budget, 87/ however, did not indicate such a grant. Currently, local industry and producers' cooperatives are continuing their effort to increase production by means of the expansion, specialization, and mechanization of their network and by the building up of their own raw material base.

Assuming that the current policy of granting financial concessions, technological assistance, and top-level administrative attention will continue, local and cooperative industries should be able to carry out their assigned role of satisfying local needs out of local resources. It is probable that both industries will fulfill their revised Five Year Plan goals for the doubling of the 1950 gross production level by the end of 1955. (See Table 3.*) The current drive for technological development indicates that a continued sharp increase in output will be demanded in succeeding years. It is difficult to see how either local industry or producers' cooperatives can achieve corresponding rapid success in improving the quality of output, lowering production costs, and increasing labor productivity if such pressure to increase output continues. There should be a more gradual correction of these ills as the technology of the enterprises and the skill of the workers improve.

Although enterprises of local and cooperative industries are being encouraged to put into production such luxury goods as electrical appliances, fine china, and glassware, the main responsibility of these enterprises is the supply of basic needs in consumer goods -- that is, such items as sleeveless jackets, felt boots, furniture, and cooking utensils.

The continued development of local industry and producers' cooperatives should inevitably create a much greater degree of regional self-sufficiency in the supply of consumer goods as well as of other

* P. 17, above.

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items such as building materials or agricultural equipment. The resulting easing of the demands on central sources for the supply of such articles could be advantageous to the Soviet government both politically and militarily. Regional self-sufficiency in the production of regional requirements has evident military advantages -- permitting the diversion of heavy and light industry production and transport facilities toward a war effort and constituting a valuable potential source for the support of war.

VIII. Conclusions.

The Soviet government regards local industry and producers' cooperatives as an indispensable economic sector and is currently sponsoring a drive to accelerate their development. The government is developing these industries, which are by their nature difficult to control and uneconomical to operate, for the following reasons:

1. At no time since the Revolution of 1917 has the production of consumer goods by state light industry been sufficient to allow the disbanding of an industry which produced approximately one-fourth of all consumer goods.
2. In remote regions and newly developed areas the output of local and cooperative industries is at times the only source for the supply of essential consumer goods and other requirements.
3. The ability to supply consumer goods within an area lessens the drain on transportation facilities.
4. The production of essential consumer goods out of local raw material resources allows the allocation of central supplies to high-priority projects.
5. An increased supply of consumer goods, farm implements, and building material from local and cooperative industries could allow the Soviet regime to divert heavy and light industry output or possibly surplus agricultural raw materials toward desired political goals.
6. The functioning of technically competent regional industry has the potential during a war not only to supply the area with essential consumer goods but also to convert to war production.

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At the present time, local industry and producers' cooperatives in the USSR still produce only a proportionately low output of goods, of poor quality and limited assortment. They have high production costs, low labor productivity, poorly equipped and limited production facilities, and, for the most part, unskilled labor. Nevertheless, the sector has effectively increased its ability to fulfill its assigned role since the postwar planning era. The current accelerated drive to build up local industry and producers' cooperatives should greatly increase their potential, even within the next 2 or 3 years.

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APPENDIX A

METHODOLOGY

The indexes of gross production and consumer goods production of local industry and producers' cooperatives in the USSR shown in Tables 3 and 4* were estimated by means of official data on total industrial production of the USSR and total consumer goods production of the USSR and by applying the experience factor of the RSFSR industries. Data for consumer goods production were used to extrapolate the production of local and cooperative industries in the years 1947, 1948, 1949, and 1951, having assumed that the trend of total consumer goods production and that of local and cooperative industries' production were the same. Prices for 1926-27 were converted to wholesale prices as of 1 January 1952 by determining the value of the production of local industry and producers' cooperatives in terms of both types of prices. It was established that figures published since 1953 on gross production and consumer goods production of producers' cooperatives are in terms of wholesale prices as of 1 January 1952. 88/ Until 1949 or 1950, producers' cooperatives had given such data in terms of 1932 prices. 89/

The working indexes for Tables 3 and 4 are given in Table 5.** Data presented in Table 5 are based on linking indexes of Soviet gross production in terms of 1926-27 prices through 1950 and thereafter in terms of 1 January 1952 prices. This linkage is similar to that used by Soviet statisticians.

* Pp. 17 and 18, respectively, above.

** Table 5 follows on p. 26.

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Table 5
Working Indexes for Tables 3 and 4 a/

Year	Total Consumer Goods Production, USSR (1926-27 Prices)	Gross Production of Local and Cooperative Industries, USSR (1926-27 Prices)	Gross Production of Producers' Cooperatives, USSR (1926-27 Prices)	Gross Production of Producers' Cooperatives, USSR (1952 Prices)	Gross Production of Local and Cooperative Industries, USSR (1952 Prices)	Total Consumer Goods Production, USSR (1952 Prices) b/	Consumer Goods Production of Local and Cooperative Industries, USSR (1952 Prices) c/	Total Gross Production, USSR (1926-27 Prices)
1940	53.6 d/	15.508 e/	10.521 f/	28 g/	41.297 h/	127.943	28.970	138.5 i/
1945	31.6 j/			20.80 k/	39.16 l/	75.413	27.40	127.42 m/
1946	35.9 n/			16.00 o/	28.5 p/	85.675	19.95	107.822 q/
1947	43.952 r/			25.144 s/	37.064 t/	104.913	25.944	128.805 u/
1948	53.064 v/			28.631 w/	44.737 x/	126.663	31.315	163.43 y/
1949	57.352 z/	23.262 aa/	14.098 ab/	28.989 ac/	48.316 ad/	136.899	33.821	195.285 af/
1950	65.928 ag/			31.2 ah/	55.516 ai/	157.370	38.861	239.605 aj/
1951	76.648 ak/			36.254 al/	64.509 am/	182.958	45.156	279.770 an/
1952	84.696 ao/			42.0 ap/	74.732 aq/	202.169	52.312	312.698 ar/
1953	94.859 as/			47 at/	83.629 au/	226.428	58.540	350.221 av/
1954	107.190 aw/			55 ax/	97.864 ay/	255.862	68.504	395.749 az/
1955 Revised Plan	112.736 ba/			62.4 ab/	111.032 ac/	269.100	77.722	409.724 ad/

a. Pp. 17 and 18, respectively, above.
 b. 1926-27 prices were converted into wholesale prices as of 1 January 1952 by dividing the gross production of local and cooperative industries in the USSR as estimated for 1950 in 1952 prices by the gross production of local and cooperative industries as estimated for 1950 in 1926-27 prices. The resulting price index (238.7) was applied to the total consumer goods production in the USSR reported in 1926-27 prices.
 c. It was reported in 1951 that consumer goods production of local and cooperative industries in the USSR accounted for 70 percent of the gross production. 90/ This ratio has been assumed to be generally true for the years 1940 and 1945 through 1955.
 d. 91/
 e. In 1950, local and cooperative industries in the USSR were reported as having surpassed the level of production in 1940 by 50 percent. 92/
 f. The same rate of increase as that planned for the total production of consumer goods, 9 percent, 93/ was applied to the Ministries of Local Industry in the USSR. The difference between the gross production of local industry in 1940 and the gross production of total local and cooperative industries represents the gross production of producers' cooperatives. 94/
 g. 95/
 h. The total gross production of local and cooperative industries in the USSR in 1940 was derived by applying the estimated percent of total production which was the production by producers' cooperatives in 1926-27 prices to the production reported for producers' cooperatives in 1945 in 1952 prices. 96/ The total gross production of local and cooperative industries in the USSR in 1950 was derived in a like manner, using the percentages derived from 1950 production in 1926-27 prices. 97/
 i. 98/
 j. The total consumer goods production in the USSR in 1945-53 was derived from reported percentage increases applied to production as reported for 1940 and to the resulting estimated production for each succeeding year. 99/
 k. The gross production of producers' cooperatives in the RSFSR was reported to have increased 1.5 times during the Fourth Five Year Plan. 100/ To derive figures for 1945, it was assumed that the same was true for the gross production of producers' cooperatives in the USSR.
 l. The gross production of local industry in the RSFSR in 1950 was reported to have surpassed the 1945 level by 32.4 percent. 101/ The same percentage was applied to local industry in the USSR. After subtracting the gross production of producers' cooperatives in the USSR as reported in 1950 from the estimated total production of local industry and producers' cooperatives in 1950, production figures are derived for the gross production of local industry in the USSR in 1950 (24.3 billion rubles). Estimates for the production of local industry in the USSR and for that of producers' cooperatives in 1945 were added to get a total.
 m. An index of the total gross production in the USSR in 1926-27 prices was derived by applying percentage increases 102/ to the total gross production in the USSR in 1940 as reported in source 103/ and to the resulting estimated gross production for the following years. 1926-27 prices are converted to 1952 prices by applying the estimated price index (238.7). Production figures in 1952 prices were used in deriving the percentage shown in Table 3 (p. 17, above).
 n. The gross production of producers' cooperatives in the USSR in 1950 was reported as nearly twice that of 1946. 104/

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Table 5

Working Indexes for Tables 3 and 4 a/
(Continued)

- o. The gross production of producers' cooperatives in the USSR in 1950 was reported to be nearly twice that of 1946. 105/ It was assumed that the same increase was true for local industry in the USSR, and it was applied to the estimate for the production of local industry in 1950. Finally, the total production of local and cooperative industries in the USSR in 1946 was derived by the addition of the two estimated components.
- p. The production of producers' cooperatives in the USSR was reported to be "... nearly the same as in 1940." 106/ The gross production of producers' cooperatives in the USSR in 1947 was derived by applying the estimated percent of total production which was production by producers' cooperatives in 1940 to the estimated total production of local and cooperative industries in the USSR in 1947. Estimates for 1948 and 1949 are straight-line interpolations between those for 1947 and 1950. For estimates for 1950-55, the ratio between the production of producers' cooperatives in the USSR and production of local industry in the USSR in relation to total production is assumed to remain constant because the original Fifth Five Year Plan goals are the same. 107/
- q. The gross production of local and cooperative industries in the USSR for 1947, 1948, 1949, and 1951 are extrapolations based on the production of consumer goods in the USSR, applying reported percentage increases.
- r. The planned gross production for local and cooperative industries in each republic totals 20.054 billion rubles. 108/ The same percentage, 16 percent overfulfillment, 109/ as reported for the production of local and cooperative industries in the RSFSR was applied to the production of local and cooperative industries in the USSR.
- s. The same percentage increases as pertained to the production in the RSFSR were applied to the total production in the USSR. The gross production of producers' cooperatives in the RSFSR in 1950 was reported as a 34-percent increase over production in 1940. 110/ The gross production of local industry in the RSFSR in 1950 was reported as 2.2 times that of 1940. 111/ The consumer goods production of local and cooperative industries in the RSFSR in 1950 was reported as a 59-percent increase over production in 1940. 112/ The Plan for the production of local industry in the USSR in 1950 called for an 80-percent increase over production in 1940. After applying these percentage increases, it was estimated that in 1950 the production of cooperative industry in the USSR represented 67.84 percent of the total production of local and cooperative industries in the USSR, whereas in 1940 cooperative industry had produced only 56.22 percent of the total production of consumer goods.
- t. The gross production in 1954 was reported as having increased 13 percent over that of 1953. 113/ Production of producer goods was reported to be 70 percent of the gross production in 1953. 114/ It was assumed that this ratio (70 percent, producer goods; 30 percent, consumer goods) applied to 1954 as well.
- u. 115/
- v. 116/
- w. It was assumed that the increase in production planned for 1955 under the revised plan for local industry in the USSR is the same as that for producers' cooperatives in the USSR (nearly twice that of 1950). 117/

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APPENDIX B

GAPS IN INTELLIGENCE

The biggest impediment to a knowledge of local and cooperative industries in the USSR arises from the nature of their organization as independent entities in each of the republics. Although a fund of information exists from which studies on separate republics could be derived, this approach was not practical for this report.

Since the establishment of the Central Union of Producers' Cooperatives, USSR, in 1950, a good deal of aggregative information has been published on the producers' cooperatives. Data on the Ministries of Local Industry, however, have been particularly limited. Some figures have been published on expenditures for capital investment in each republic, and a later report will include these data.

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APPENDIX C

SOURCE REFERENCES

The sources used for this report on local and cooperative industries in the USSR are either Soviet newspapers and periodicals or non-Soviet material which has been based on Soviet open material.

Evaluations, following the classification entry and designated "Eval.," have the following significance:

<u>Source of Information</u>	<u>Information</u>
Doc. - Documentary	1 - Confirmed by other sources
A - Completely reliable	2 - Probably true
B - Usually reliable	3 - Possibly true
C - Fairly reliable	4 - Doubtful
D - Not usually reliable	5 - Probably false
E - Not reliable	6 - Cannot be judged
F - Cannot be judged	

"Documentary" refers to original documents of foreign governments and organizations; copies or translations of such documents by a staff officer; or information extracted from such documents by a staff officer, all of which may carry the field evaluation "Documentary."

Evaluations not otherwise designated are those appearing on the cited document; those designated "RR" are by the author of this report. No "RR" evaluation is given when the author agrees with the evaluation on the cited document.

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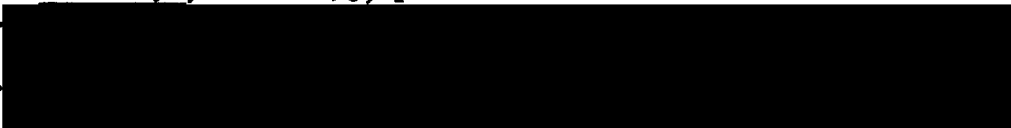
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