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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

The Soviet Economic Plan and Prospects for 1971-75

Secret

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June 1971

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FOREWORD

Throughout this memorandum, the aggregative statistics or indexes which are presented are for the most part those calculated by CIA and accepted by the intelligence community. These measures do not agree with the official Soviet aggregate measures of growth in the economy (including growth of national income and of industrial and agricultural output). Moreover, some official commodity data such as those relating to grain production have been adjusted to conform to international standards of definition and coverage. Substitute measures constructed by CIA economists and other Western economists almost invariably indicate that there are substantial degrees of overstatement in the Soviet measures.

All aggregate measures used in this memorandum are computed in 1968 prices. Previously, 1960 prices were used in computing CIA indexes of Soviet economic performance.

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SECRET**CONTENTS**

	<i>Page</i>
Introduction	1
Summary and Conclusions	2
Discussion	4
Economic Plans and Policies	4
Background	4
Policies Reflected in the New Plan	8
Investment Outlook	10
Priorities in Resource Allocation	11
Industry	13
Chemicals	13
Metals	16
Fuels	16
Electric Power	17
Machinery	18
Agriculture	18
Consumer Welfare	22
Private Activity	26
Manpower	28
Economic Reform	29
Foreign Trade	31
Outlook	32

TABLES

	<i>Page</i>
1. USSR: Average Annual Rates of Growth of Components of Gross National Product, at Factor Cost	5
2. USSR: Indexes of Output, Inputs, and Factor Productivity in Gross National Product	8
3. USSR: Distribution of Gross National Product, by End Use at Factor Cost	9
4. USSR: Average Annual Rates of Economic Growth	10
5. USSR: Average Annual Rates of Growth of Gross Fixed Investment in Consumer-Oriented and Growth-Oriented Sectors of the Economy ..	11
6. USSR: Average Annual Rates of Growth in Industrial Production	13
7. USSR: Average Annual Rates of Growth in Output of Important Industrial Products	15
8. USSR: Indexes of Output, Inputs, and Factor Productivity in Agriculture	19

SECRET

iii

SECRET

	<i>Page</i>
9. USSR: Average Annual Rates of Growth of Selected Inputs in Agriculture	20
10. USSR: Annual Average Output of Important Agricultural Products	20
11. USSR: Gross Additions to the Stock of Irrigated and Drained Land	21
12. USSR: Average Annual Rates of Growth of Consumption, by Component .	23
13. USSR: Average Annual Rates of Growth of Wages per Worker	25
14. USSR: Personal Money Incomes and Expenditures	25
15. USSR: Scheduled Welfare Measures	26

CHARTS

	<i>Page</i>
Figure 1. USSR: Selected Indicators of Economic Performance	6
Figure 2. USSR: GNP, Inputs, and Factor Productivity	7
Figure 3. USSR: Growth in Major Sectors of Industrial Production	14

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CENTRAL INTELLIGENCE AGENCY

Directorate of Intelligence

June 1971

INTELLIGENCE MEMORANDUM

**The Soviet Economic Plan and
Prospects for 1971-75**

INTRODUCTION

1. The directives approved by the 24th Party Congress for drafting of the Ninth Five-Year Plan, covering the period 1971-75, were published on 11 April. As with earlier plans, there were no important substantive differences between the approved draft and the earlier version of the directives released in mid-February for "discussion" purposes. On the basis of the approved directives, the Council of Ministers is instructed by the Party to draw up before 1 August the annual plans for the individual years of the five-year period and the plans for each of the 53 ministries and for the 15 republics. Finally, by 1 September the detailed draft of the plan is to be submitted for ratification by both the Supreme Soviet and a Party plenum. If past procedures are followed, however, no public proclamation will be issued concerning the plan's formal approval nor will a summarized or expanded form of the detailed plan be published.*

2. This memorandum reviews the economy's performance in 1966-70, the policies and plans for 1971-75, and the prospects for achieving the principal goals. Recent trends in output and its uses and the plan's highlights with respect to priorities and primary targets are described. Production goals for industry and agriculture and allocational plans for consumption are discussed in detail, and attention is focused on probable trends in selected areas that (1) will either directly impinge on the success in fulfilling production targets—private activity and manpower—or, (2) are indirectly related to the extent that they affect productivity (efficiency) gains—economic reform and foreign trade. Finally, the memorandum presents a preliminary appraisal of the prospects for the Soviet economy in the period 1971-75.

*In his concluding speech to the 23rd Party Congress in April 1966, Premier Kosygin stated that within four to five months the planning authorities would have the detailed plan for 1966-70 ready for submission to the USSR Supreme Soviet. However, two sessions of the Supreme Soviet passed—in August and December 1966—without a public announcement of a final plan.

Note: This memorandum was prepared by the Office of Economic Research.

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SUMMARY AND CONCLUSIONS

3. The year 1970 marked the end of the Eighth Five-Year Plan (1966-70) and the sixth year of the Brezhnev regime. Although the economy during this period failed to regain the high growth rates of the 1950s, there was moderate improvement when compared with the latter years of Khrushchev's regime. Gross national product (GNP) grew at an annual rate of 5½% compared with about 5% in 1961-65. While much of this modest gain was attributable to better harvests, resulting from more favorable weather, the post-Khrushchev leadership can take credit for some of the improvement. In contrast to the disruptive nature of Khrushchev's approach to economic management—characterized by frequent reorganizations and campaigns—the new regime has proceeded in a more orderly fashion.

4. The economic blueprint of the new five-year plan (1971-75) does not call for a radical shift either in production or allocational policies. The average annual rates of increase planned for GNP and industry are somewhat above the average annual growth achieved in 1966-70, as shown in the following tabulation:

	<i>Average Annual Increase (Percent)</i>		
	<u>Actual 1961-65</u>	<u>Actual 1966-70</u>	<u>Planned 1971-75</u>
Total output (GNP)	5	5½	6
Industrial output	7	7	8
Agricultural output	3½	4	3½

5. Although the new output targets for 1975 are relatively modest, the prospects for fulfillment are not auspicious. The projected rates of growth of man-hours and the stock of plant and equipment are somewhat less than during the last half of the 1960s. Total investment is to increase 6½% annually, compared with more than 7% annually during 1966-70. Labor inputs will probably increase at no more than 1½% annually, reflecting a moderate slowdown over the rate of increase in the 1960s. This pattern of growth in resources implies an average annual rate of increase of total inputs of around 3%, compared with 3½% during the preceding five years. Thus, to achieve even the moderate improvement planned in overall growth, there must be a substantial increase in factor productivity.

6. On the basis of past experience, however, there is little reason to believe that factor productivity will grow much faster than the annual rate of roughly 2% registered in 1966-70. This rate of growth in output per unit of input, combined with a 3% growth of resources, would result in an average annual rate of growth in GNP of 5%. Obtaining a higher rate of productivity growth would probably require the adoption of new strategies for the introduction of new technology and for raising the efficiency of investment in industry and agriculture. However, no new organizational or managerial schemes have been revealed to bring this about, suggesting that old, unproductive methods will be tried anew.

7. There is no evidence of major changes in priorities in the interplay of the demands for increases in all major sectors—military and space, growth and

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consumption. As before, investment is to grow at a slightly higher annual rate (6½%) than GNP and consumption at a lower rate (5%). The data do not permit precise estimates of defense outlays, but it appears that the plan allows for a rise in expenditures for military and space programs at least as rapidly as that for national income.

8. The plan directives place unusual emphasis on bettering the lot of the consumer, but the figures given imply that the rate of progress planned for the standard of living is somewhat lower than that achieved in 1966-70. Nevertheless, there are signs that consumption and consumer-related sectors such as agriculture may now be on a more equal footing with other claimants. In other words, in the coming years, if the economy fails to grow at expected rates, resulting in an overcommitment of resources, it may be that the consumer industries will suffer no more than the growth-oriented industries. If this occurs, it will mark a major turning point in Soviet economic policy.

9. Achievement of the targeted rate of increase in per capita consumption (4%) should meet the population's expectation of steady and visible progress. There is little prospect, however, of a significant reduction of the chronic irritations to consumers such as suppressed inflation, incomprehensible shortages, queues, distorted prices, poor quality, and neglect of consumer preferences. These are matters that growing resource availability has failed to solve.

10. From the point of view of the consumer, probably the most important element in the consumer welfare picture is the rate of improvement in his diet. And, of course, progress in agriculture is the key to meeting this demand for higher quality food. At first glance, the agricultural goals for 1971-75 appear only moderately ambitious—the average annual rate of growth would have to increase by slightly less than the rate of expansion recorded in the 1966-70 period. The growth rate recorded in the earlier period, however, was based on a very unfavorable weather year (1965) and ended in a generally favorable year (1970), while the current goal begins on the high plateau of 1970. As a result, under normal growing conditions in the period ahead, a moderate acceleration in growth is required to match the earlier period. The evidence pertaining to resource plans, although incomplete, indicates a boost in the growth of annual inputs to farms in 1971-75. Indeed, if Brezhnev's rhetoric has content, the ambitious plans for investment and industrial support to agriculture will be carried out with unprecedented persistence. Moreover, there are signs of more tolerance by the regime toward private farming activity. The relaxation of restraints on the private sector taken together with the high priority position for resource allocations to collective and state farms in the socialized sector should provide a marked impetus to farm output in the next two or three years.

11. Even though the announced plans for foreign trade indicate a slowing of the rate of growth of total trade turnover, the outlook is for the USSR to continue to use foreign trade as a means of alleviating some of the strains in its economy, especially through the import of capital goods from the industrial West. As before, the principal constraint to expanded trade will be the growing indebtedness to Western trading partners and the problem of generating off-setting exports.

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DISCUSSION

ECONOMIC PLANS AND POLICIES

Background

12. During the Eighth Five-Year Plan (1966-70), Soviet GNP grew at an annual rate of 5½% (see Table 1 and Figure 1). By comparison the rate posted in 1961-65 was about 5% and for the decade of the 1950s about 6%. Because of the wide fluctuation in agricultural production, however, year-to-year growth in GNP has varied considerably during the past five years—from a low of 2.5% in 1969 to a high of 7.9% in 1970. All of the increase in the growth rate of GNP since 1965 can be attributed to an improved performance in agriculture and construction. Industry, the largest contributing sector to GNP, grew at about the same pace as in the first half of the decade. The rate of growth of Soviet GNP for the past five years was less than half that of Japan, roughly the same as that of France and Italy, but substantially above that of the United States, West Germany, and Great Britain.

13. The modest improvement in the rate of growth of Soviet GNP in the last half of the decade was due entirely to a boost in the rate of increase of factor productivity (output per unit of combined inputs of capital and labor): from an average of 1.3% to 2.1%. The rate of growth of inputs of capital* and labor in this period was about the same as in 1961-65. (These data are presented in Figure 2 and Table 2.)

14. The moderate upturn in overall growth in 1966-70 was reflected in an increased tempo in allocations to all the principal resource claimants (consumption, investment, and defense) in comparison with 1961-65. As in the past, outlays for investment continued to grow at a somewhat higher rate than GNP and outlays for defense and consumption at a somewhat lower rate. These moderately diverging trends led to a further increase in the share of GNP allocated to investment—from 29% in 1965 to 31% in 1970—and a small decline in the share of defense expenditures—from 7½% in 1965 to 7% in 1970 (see Table 3).

15. The share going to consumption, the largest GNP claimant, decreased slightly, continuing its long, slow trend downward. Although declining as a share of GNP, the rate of progress for consumption for the 1966-70 period was greater than for either of the previous two five-year periods (1956-60 and 1961-65). Moreover, the share of consumer-oriented investment rose somewhat more rapidly than that of growth-oriented investment when compared with 1961-65.** This modest shift was designed to compensate partially for the neglect of housing and consumer goods production during 1961-65, when relatively greater emphasis was placed on increasing investment in the growth-oriented sectors of the economy (primarily heavy industry, transportation, and communications).

*Unless otherwise noted, the term capital is used to designate all structures, equipment, land, and livestock but does not include inventories.

**Consumer-oriented investment includes investment in agriculture, light and food industry, housing, and services.

Table 1

USSR: Average Annual Rates of Growth of Components of Gross National Product, at Factor Cost ^a

	Percent						
	1961-65	1964-70	1966	1967	1968	1969	1970
Gross national product	5.2	5.6	7.0	4.4	6.2	2.5	7.9
Industry ^b	7.0	7.0	7.7	7.6	6.6	6.5	6.6
Construction	3.8	6.8	7.3	8.1	7.1	2.0	9.8
Agriculture ^b	2.6	3.7	8.5	-2.8	5.7	-6.0	14.1
Transportation	8.7	6.0	4.8	8.5	6.0	4.1	6.5
Communications	8.2	10.5	10.8	12.2	9.8	9.9	9.9
Domestic trade	5.7	8.2	8.6	9.2	8.4	7.4	7.4
Services	5.2	4.3	4.4	4.6	5.1	4.1	3.5
Nonagricultural sectors of gross national product ^c	6.2	6.2	6.6	6.9	6.3	5.3	6.1

^a All aggregate measures used in this memorandum are computed in 1968 prices. Previously, 1960 prices were used in computing indexes of Soviet economic performance.

^b The indexes for industrial and agricultural output presented in this table are adjusted to a value-added basis by deducting: (1) sales by agriculture to industry from industrial output, and (2) sales by industry to agriculture from agricultural output. The indexes of industrial and agricultural output shown elsewhere in this memorandum represent value of output, so the values on which they are based do not exclude purchases from other sectors.

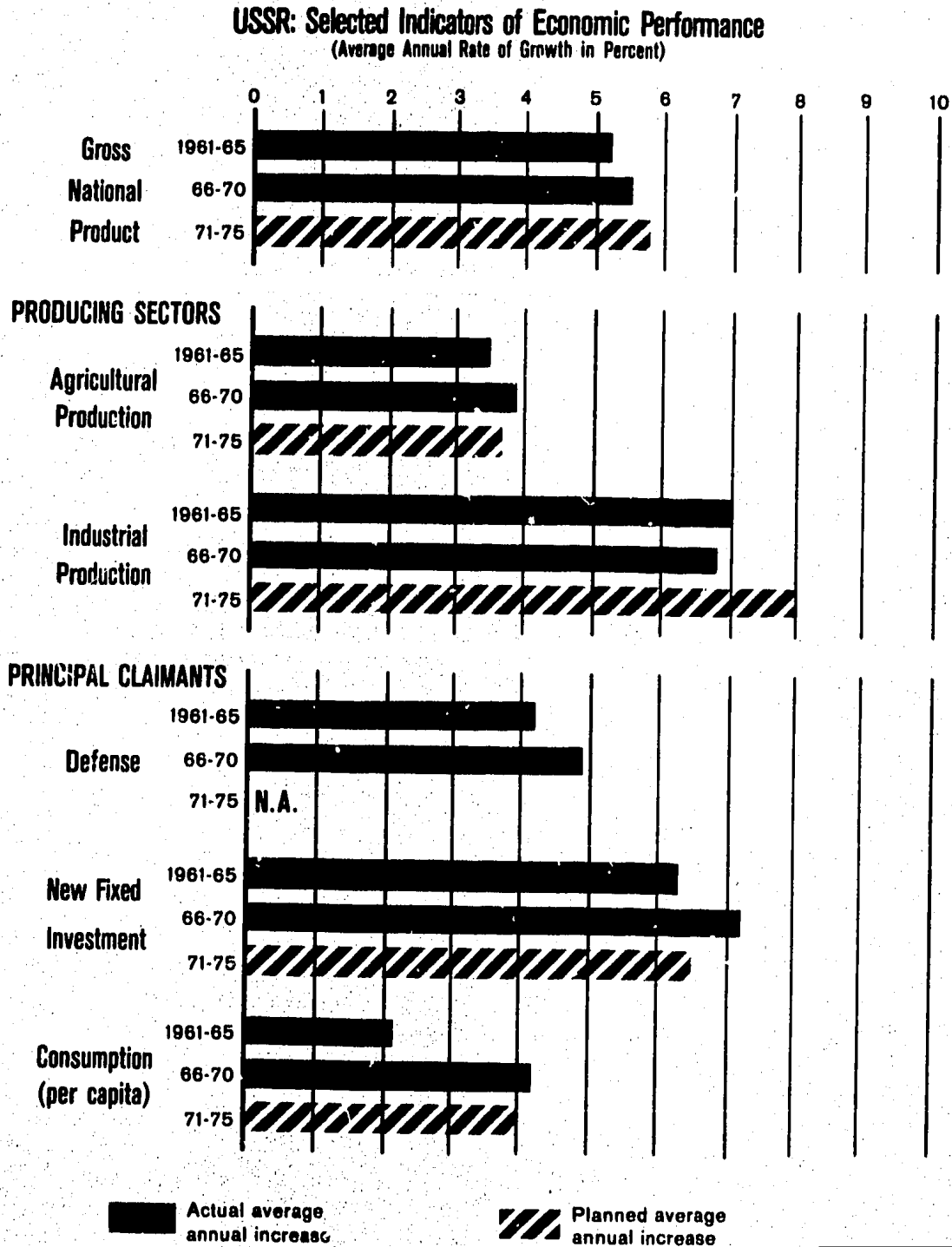
^c The weighted average of the annual change of output of all the sectors, excluding agriculture.

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Figure 1



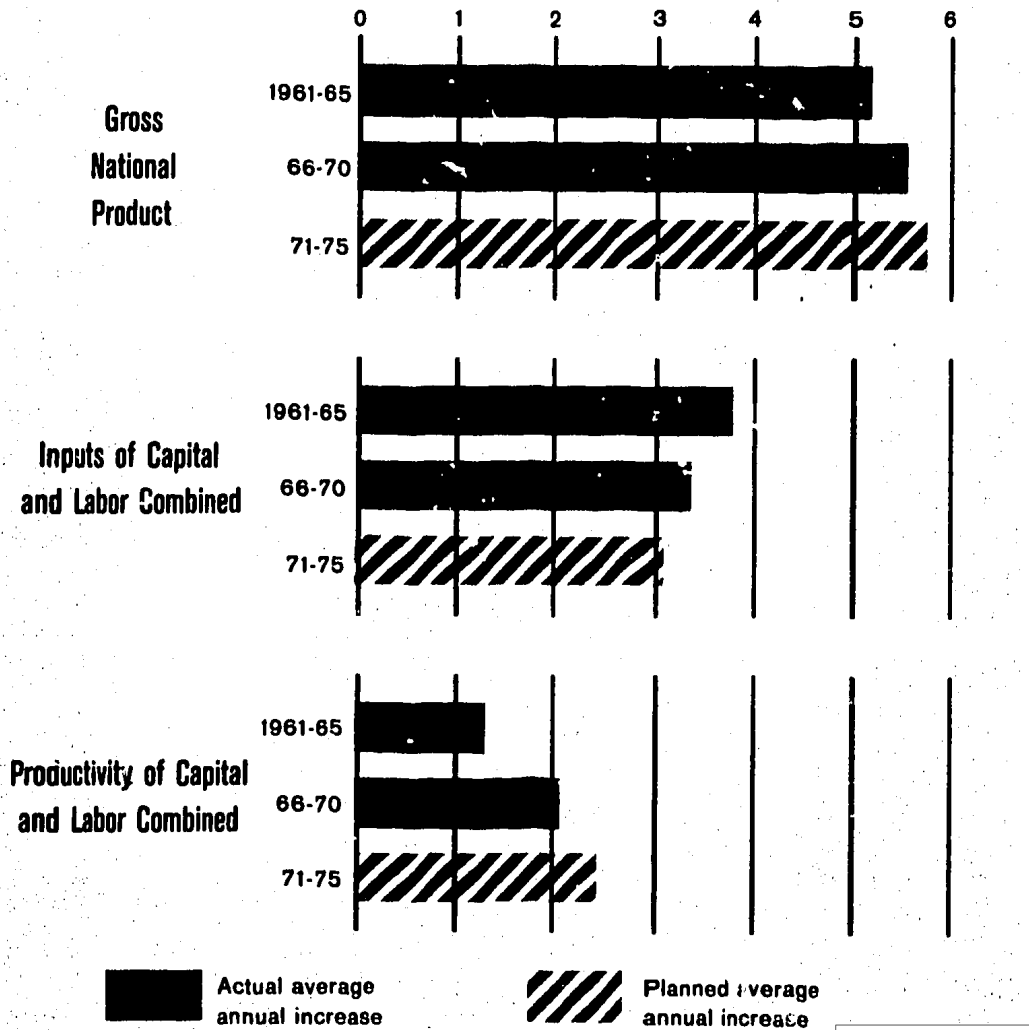
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Figure 2

USSR: GNP, Inputs and Factor Productivity
(Average Annual Rate of Growth in Percent)



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Table 2

USSR: Indexes of Output, Inputs, and Factor Productivity in Gross
National Product

	1965=100							
	1960	1965	1966	1967	1968	1969	1970	1975 Plan
Total inputs ^a	83.0	100	103.5	107.0	110.6	114.4	118.4	138.3
Man-hours worked ...	91.2	100	101.8	103.7	105.5	107.6	109.6	118.6
Capital ^b	66.1	100	107.9	115.7	124.2	133.5	143.8	202.2
Land	97.1	100	98.9	98.9	99.0	99.7	98.7	98.7
Output	77.7	100	107.0	111.7	118.6	121.6	131.3	173.7
Factor productivity ^c	93.6	100	103.4	104.4	107.3	106.3	110.8	125.7

	Average Annual Rates of Growth (Percent)			
	1956-60	1961-65	1966-70	1971-75
Total inputs	2.6	3.8	3.4	3.1
Output	5.7	5.2	5.6	5.8
Factor productivity	3.0	1.3	2.1	2.5

^a This index gives a measure of the level of output expected to be obtained from the indicated levels of conventional inputs of labor (expressed in man-hours worked), capital, and land. The three series of inputs are combined (using a Cobb-Douglas production function) by use of 1968 weights that represent the monetary or imputed costs attributed to each of the inputs. The shares of inputs in total costs of production in the base year 1968 were as follows (in percent): labor 66.6; capital, 29.9; and land 3.5.

^b Gross fixed capital including livestock.

^c Ratio of index of output to index of inputs.

Policies Reflected in the New Plan

16. The new five-year plan, as initially outlined in the draft directives and in the speeches at the 24th Party Congress, suggests that the main objectives of Soviet economic policy will remain roughly the same as in recent years.

17. The targets for rates of change in output by the major sectors and in use of resources are shown in Table 4. The average annual rates of increase planned for GNP and industry are somewhat above the average annual growth achieved in 1966-70. No major shifts are apparent in the allocation of resources among the principal claimants—defense, investment, and consumption. As before, investment is to grow at a slightly higher annual rate (6½%) than GNP, and consumption at a lower rate (5%). The directives place unusual emphasis on bettering the lot of the consumer, but the figures given imply that the rate of progress planned for the standard of living is somewhat lower than that achieved in 1966-70. Although the available data do not permit precise estimates of defense outlays, it appears that the plan allows for a rise in expenditures for military and space programs at least as rapidly as that for national income.

18. The Soviet leaders continue to call for (1) increasing productivity (by uncovering "hidden reserves," accelerating the pace of technological progress, and improving managerial techniques and incentive arrangements); (2) increasing the quantity of goods and services for all principal claimants; and (3) improving the quality, durability, and reliability of producer and consumer goods.

19. Indeed, to achieve even the modest improvement planned in overall growth, the regime must depend upon a substantial increase in productivity.

Table 3

USSR: Distribution of Gross National Product, by End Use at Factor Cost ^a

End Use	1960		1965		1968		1969		1970	
	Billion Rubles ^b	Percent	Billion Rubles ^b	Percent	Billion Rubles ^b	Percent	Billion Rubles ^b	Percent	Billion Rubles ^b	Percent
Consumption	114.1	63.3	136.7	58.9	164.3	59.7	166.9	59.1	176.9	58.1
Investment	48.2	26.7	67.7	29.2	83.3	30.3	87.0	30.8	94.9	31.2
New fixed	38.8	21.5	52.3	22.5	66.0	24.0	68.2	24.2	74.2	24.4
Other ^c	9.4	5.2	15.4	6.6	17.3	6.3	18.8	6.7	20.7	6.8
Defense	13.9	7.7	17.1	7.4	20.0	7.3	21.0	7.4	21.7	7.1
Administration	3.5	1.9	4.2	1.8	5.0	1.8	5.2	1.8	5.4	1.8
Other ^d	0.5	0.3	6.4	2.8	2.7	1.0	2.2	0.8	5.7	1.8
Total ^e	180.2	100.0	232.1	100.0	275.3	100.0	282.3	100.0	304.6	100.0

^a Because of rounding, components may not add to totals shown.

^b In 1968 prices.

^c Including capital repair and civilian research and development.

^d This category is a residual consisting of inventory change, net exports, and a statistical discrepancy. The residual is the difference between total GNP, which is derived from sector-of-origin data, and GNP as the sum of end uses. See footnote e, below.

^e Ruble totals for GNP and corresponding growth rates for GNP represent sector-of-origin totals because these data are more complete and, in some instances, more reliable than data pertaining to end uses. For example, in calculating GNP by end use, net exports and inventory change cannot be measured adequately. Furthermore GNP by sector of origin and GNP by end use are derived from independent sets of weights and indexes. Hence, a statistical discrepancy can be expected to exist.

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Table 4

USSR: Average Annual Rates of Economic Growth

	Percent		
	Actual		1971-75 Plan
	1961-65	1966-70	
Industrial output	7.0	6.8	8.0
Agricultural output	3.5	3.9	3.7
Investment (gross fixed)	6.3	7.2	6.5*
Consumption (per capita)	2.1	4.2	4.0
Defense	4.2	4.9	n.a.
Gross national product	5.2	5.6	5.8

* Mid-point of range.

The projected rates of growth of man-hours and the stock of plant and equipment are somewhat less than during the last half of the 1960s. The plans for growth and the clarion call for technological improvement, however, are not backed up by concrete methods whereby the change is to be effected. No new strategy or new organizational schemes for the introduction of new technology are revealed in the plan directives or the Congress speeches.* Moreover, the current regime has revealed itself to be particularly unimaginative in matters of innovation, suggesting that old, unproductive methods will be tried anew.

20. Normally, assessment of the directions of the Soviet economy based on medium-term plans is hazardous because of the preliminary nature of the data presented in the plans. The unusual paucity of data in the published directives for this plan added to this uncertainty. The sparseness of data may be associated with a lack of balance between planned inputs and goals for output, particularly in the materials and machinery branches of industry. In this sense, the directives may reflect an effort to cover up a set of goals that would otherwise convey a pessimistic outlook for Soviet economic growth.

Investment Outlook

21. The published plans are notably uninformative on investment details. Moreover, Kosygin in his presentation to the Congress failed to elaborate on the sparse investment data given in the directives, as he did for the 1966-70 plan at the 23rd Party Congress in 1966. This reticence on new capital formation as well as lack of figures in some other sectors may indicate indecision or even opposition within the leadership over the planned pattern of resource allocation. In any case, the limited data that are available do not suggest a major shift toward consumer-oriented sectors compared with the last five-year plan.

22. In 1966-70, new fixed investment grew at an average annual rate of more than 7%, or about one percentage point higher than that averaged during the first half of the decade (see Table 5). At the same time the growth in total capital stock declined from an average of about 8½% in 1961-65 to 7½% in

*Chief planner Baybakov, in his remarks to the Party Congress, presented a planned schedule of savings of specific material inputs (e.g., metals and electric power) over the five-year period, which when aggregated come to more than 20 billion rubles, an amount equivalent to one-fourth of the total planned boost in national income between 1970 and 1975.

SECRET**Table 5****USSR: Average Annual Rates of Growth of Gross Fixed Investment
in Consumer-Oriented and Growth-Oriented Sectors of the Economy**

	Percent		
	1961-65	1966-70 ^a	1971-75 Plan
Total investment	6.3	7.2	6-7
Consumer-oriented investment	5.8	7.8	n.a.
Agriculture	11.9	8.8	10 ^b
Housing	-0.1	5.6	2 ^c
Consumer goods industry	3.4	14.9	n.a.
Services	7.5	0.3	n.a.
Growth-oriented investment	7.3	0.5	n.a.
Heavy industry	7.5	0.5	n.a.
Transport and communications	7.2	4.7	n.a.
Construction	5.1	11.9	5

^a Based on preliminary estimates for 1970.

^b Based on planned growth of investment in agriculture, inclusive of rural housing and services.

^c Based on planned gross commissions of new housing expressed in square meters of living space.

1966-70, partly reflecting a step-up in the rate of withdrawals of old buildings and equipment from the stock of fixed assets. No plans for growth in the total capital stock of buildings and equipment have been released for 1971-75. However, if retirement rates continue at the level observed in recent years and if gross investment increases as planned (by about 6½% per year) an average growth of capital stock of about 7% per year can be expected. During 1971-75 the agricultural sector will receive a larger share than previously of total investment allocations, reflecting the renewed priority for increasing farm output. The investment share for the farms rose from 18% in 1965 to 19½% in 1970 and will reach about 23% in 1975 if plans are met.

23. In addition to these direct investments in production facilities of agriculture, another 5½% of total investment by 1975 is scheduled for construction in rural areas of so-called "non-productive" assets such as housing, municipal and communal facilities, schools, and auditoriums. Another 6½% will be allocated to industries providing agriculture with chemical products, machinery, and other producer goods. In all, the new plan calls for 35% of total investment by 1975 to support farm goals, either directly or indirectly.

Priorities in Resource Allocation

24. Although Soviet authorities have been less than candid about their intentions for 1971-75, there is no evidence of major changes in priorities. It appears that the shares of GNP going to defense, investment, and consumption will remain about as they have been in the recent past. This is not to say, however, that smaller changes—occurring on the margin—are not taking place which may have a profound effect on the future nature of the Soviet economy. Indeed, such changes seem to be taking place. For example, whereas much of Brezhnev's pronouncements on consumer welfare seems to be campaign oratory, there are

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signs that consumption may now be on a more equal footing with the military.* The recent events in Poland may have partly influenced the Soviet leaders to give the impression of concern for the material welfare of the Soviet people. This factor alone, however, seems insufficient. More importantly, the majority of Soviet leaders probably believe that promoting consumer welfare, and in turn worker morale and labor productivity, is consistent with the objective of accelerating economic growth.

25. Agriculture is another sector whose importance seems to have risen recently. Indeed, if Brezhnev's rhetoric has content, the enhanced priority for agriculture, the key to improving the quality of the Soviet diet, will be sustained beyond the short run of a year or two. At last July's special plenum, called to consider the 1971-75 plan for agriculture, Brezhnev's report indicated a sense of urgency: "Time . . . will not wait . . . we tried other paths to solving agricultural problems, but they did not give the desired results." Even though the new resource plans are less grandiose than previous plans (e.g., the unfulfilled "Brezhnev Program" of 1966-70), these words along with other indicators may signal reaffirmation of agriculture's higher priority. Moreover, the record high production for 1970 apparently did not weaken this renewed commitment. The recently approved directives embody the plans set forth by Brezhnev at the July 1970 plenum.

26. In short, the official statements on resource policy, coupled with published plan data, seem designed not to convey a commitment for faster progress in consumption but rather to imply that if the broad range of goals can not be met simultaneously in the coming years, the planned allocations to agriculture and the consumer will not, as in the past, be reduced.**

27. On the other hand, while there may be a stronger commitment to agriculture and consumption, there is no evidence of a weaker one to military and space programs. Should the Soviet authorities decide in the face of slowing rates of expansion of GNP that allocations must be cut, probably those for growth-oriented investment in industry, construction, and transportation would suffer (at least temporarily).

*In March [redacted] the three elements of the five-year plan with the highest priority were (1) defense, (2) agriculture, and (3) consumer welfare. The same official made it clear that in giving the defense sector continued first priority, the proponents of military and space programs had no reason to complain about their share of total resources during the 1971-75 plan period.

Furthermore, the priority allocation of resources to defense-related industries may well provide additional resources, albeit indirectly, to the consumption sector. The plan directives call for a doubling of production of "consumer and household goods" in heavy industry, including defense, aircraft, electrical engineering, and radio industries.

**It is frequently assumed that the higher growth planned for light industry than for heavy industry (B versus A in Soviet jargon) in 1971-75 provides evidence of a shift in priority. In the matter of resource allocation as it affects economic growth, this traditional argument in effect mixes the main issue. This way of putting the question obscures the fact that heavy industry serves consumer-oriented sectors as well as defense and investment for further growth. Although this fact has been emphasized by the Soviet leadership, the key problem really is what kinds of heavy industry should be emphasized (e.g., for weapons or agricultural chemicals). This is not to say, however, that the Soviet debate over heavy versus light industry does not have internal political implications. Because of ideological prejudices, such a debate has very real importance in the Soviet political environment.

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INDUSTRY

28. The pace of growth of industrial output is scheduled to accelerate somewhat during 1971-75 to an average annual rate of increase of about 8%, compared with the average rate of nearly 7% recorded for 1966-70 (see Table 6). The overall targeted rate of progress for industry, however, reflects the combination of a continued slow rate of growth in basic industrial materials and a remarkably accelerated rate of growth in machinery (see Figure 3). Because the materials sector provides many basic inputs to the machinery sector, Soviet planners have traditionally projected growth rates for the two sectors only one or two percentage points apart. The sharp divergence in the current plan between these growth rates (of the materials and machinery sectors) raises doubts about the statistical basis of the machinery plan. In keeping with the central themes of the directives, the tasks assigned to industry call for marked increases in productivity and an improvement in product quality and assortment.

29. Among the major sectors of industry, the output of industrial materials is scheduled to grow only at about one-half a percentage point above the rate averaged in 1966-70. But with the exception of chemicals, construction materials, and forest products, the planned rates of growth of all industrial material branches are somewhat lower.

Table 6

USSR: Average Annual Rates of Growth in Industrial Production *

	Percent		
	1961-65	1966-70	1971-75 Plan *
Industrial production	7.0	6.8	8.0
Industrial materials	7.3	6.2	6.0
Fuels and power	7.3	5.7	5.5
Metals	9.1	6.5	5.8
Forest products and paper	3.9	4.5	3.1 *
Construction materials	8.0	6.2	7.0
Chemicals	11.5	9.3	11.4
Machinery	8.2	8.4	11.0
Non-durable consumer goods	4.5	6.2	6.4
Soft goods	2.4	7.7	6.0
Processed foods	7.0	4.0	6.2

* Plan figures are from official Soviet gross value of output data or are derived from available physical targets. Actual figures are from an index of industrial production prepared by this Office. Branch weights are 1969 ruble factor cost.

* Midpoint of range.

* Based on planned growth for paper and furniture and from an extrapolation of the growth of commercial timber for 1966-70.

Chemicals

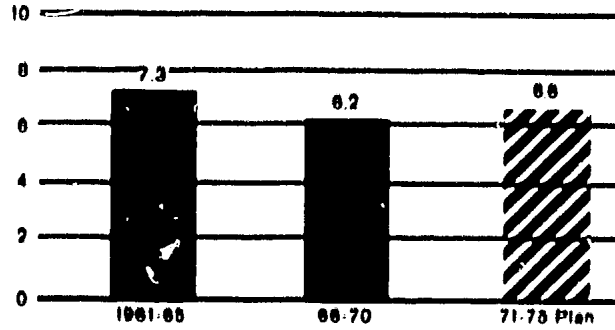
30. The traditionally rapid-growing chemicals sector is slated for a boost averaging about 11½% a year, about twice the rate for other materials. The new plan continues the emphasis of the 1960s on rapid expansion of the output

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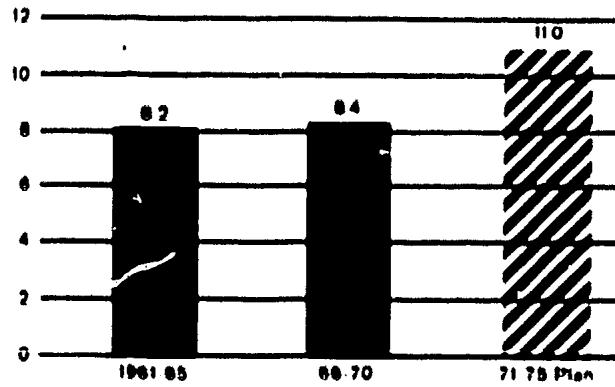
Figure 3

USSR: Growth in Major Sectors of Industrial Production (Average Annual Rate of Growth in Percent)

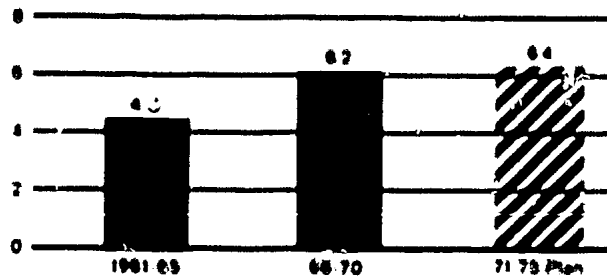
Industrial Materials



Machinery



Durable Consumer Goods



Actual average annual increase

Planned average annual increase

Source: U.S. Bureau of Economic Analysis, "USSR: Industrial Production, 1961-1975"

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of fertilizers, plastics, manmade fibers, and synthetic rubber. In all these areas, assortment changes are planned to improve quality, and large-capacity production units are to be installed to reduce costs. Production of fertilizers is scheduled to rise from 55.4 million tons in 1970 to 90 million tons in 1975, and manmade fibers from 623,000 tons in 1970 to a 1975 level of 1.05 to 1.1 million tons. In support of the planned growth in inventories of trucks and automobiles, 50 million tires are to be produced in 1975, an increase of 45% over output in 1970. Production of plastics is scheduled to double (see Table 7) and synthetic rubber to register a gain of 70%.

31. A heavy carryover of completed but unutilized fertilizer capacity, which totaled more than 18 million tons at the beginning of 1971, indicates that fairly large increases in production should be possible in at least the early years of the plan period. As further insurance for its fertilizer goals, the USSR contracted in 1969-70 to purchase five large, modern ammonia plants from Free World firms. These plants should be in operation by 1975 and will permit substantial savings in unit investment and production costs as well as the long-overdue phasing out of several outmoded installations. Eastern Europe is also committed to supply several fertilizer and fertilizer raw materials plants to the USSR.

Table 7

USSR: Average Annual Rates of Growth
in Output of Important Industrial Products

	Percent		
	1961-65	1966-70	1971-75 Plan *
Total primary energy *	6.9	5.3	5.0
Coal *	2.2	1.2	2.0
Crude oil *	10.4	7.8	6.8
Gas *	22.3	9.1	9.2
Electric power †	11.0	7.0	7.2
Metals			
Aluminum	9.7	11.5	9.2
Copper	9.5	7.3	6.6
Crude steel	6.9	4.9	4.7
Rolled steel	6.8	5.4	5.0
Other materials			
Cement	9.7	5.6	5.5
Mineral fertilizers	17.0	12.1	10.2
Chemical fibers	14.0	8.9	11.5
Plastics	20.8	15.8	15.6

* Midpoint of range.

* Based on standard fuel equivalents.

* Actual growth in 1961-70 is for net available output after removal of refuse. Planned growth is for raw gross output as mined. Because net coal output has been growing at a slower rate, the 1971-75 planned increase on a net basis may be less than 14%.

* Including output of gas condensate.

* Including shale gas and manufactured gas from coal.

* Including output consumed by generating stations.

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32. Although fulfillment of major Soviet chemical goals will depend in large part on East European and Soviet producers meeting equipment schedules and on the equipment operating satisfactorily, the USSR will not rely solely on its own resources and those of the CEMA countries to expand the Soviet chemical industry. Soviet access to Free World chemical equipment and technology remains essential. In 1970, Soviet orders for Free World chemical process data and related equipment amounted to about \$200 million, twice the value of the 1969 orders.

Metals

33. Qualitative goals for metals receive greater stress than quantitative targets, even more so than in the case of chemicals. None of the major ferrous and nonferrous products are slated to grow at a rate above that achieved in the last five years (see Table 7). Despite a scheduled slowdown in the rate of growth of crude steel output, the USSR remains a candidate for the title of the world's largest steel producer in 1975. More important to long-term Soviet prospects, however, is the fulfillment of new targets for a wider assortment and an improvement in the quality of steel products and for the introduction of new technology. The 1971-75 campaign for quality is a reflection of the ineffectiveness of measures taken to meet qualitative goals during the past decade. For example, the Soviet steel industry, the second largest in the world, compares unfavorably with the steel industries of industrialized Free World countries both in the production of the diversified types of flat rolled steel employed in modern economies and in the speed at which the efficient oxygen-converter method of steelmaking has been adopted. Even in the case of continuous casting, a technique which was pioneered most notably by the USSR, progress in commercial-scale application has been slow. A comparison with the US and Japanese industries in 1970 is shown in the following tabulation:

	<i>Million Metric Tons</i>			
	<u>Total Output of Crude Steel</u>	<u>Cold-Rolled Steel *</u>	<u>Oxygen Converter</u>	<u>Continuous Casting</u>
USSR	110	4½	22	5
United States	119	15	57½	13½
Japan	93½	12½	73½	13½

* 1969.

As the Soviet Union moves into the auto and truck age and the output of consumer durables such as refrigerators continues to grow rapidly, the demand for flat rolled sheet will require major structural changes in steel output. Hence, the ambitious, but largely unfulfilled, plans of the past to effect these changes and simultaneously to improve the quality of products cannot be indefinitely postponed. As a result, the 1971-75 plan calls for a total investment in ferrous metallurgy of 17.7 billion rubles, or about 70% more than total investment in 1966-70.

Fuels

34. The production of primary energy is to increase at an average annual rate of about 5% during 1971-75, slightly less than during the past five years. If energy plans are met, the share of oil and gas in the overall fuel balance

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will increase from about three-fifths in 1970 to two-thirds by 1975, and the share of coal will drop to less than one-third. The fulfillment of goals for oil and gas, however, will be very difficult and will require a major boost in investment, especially in the construction of pipelines.

35. The oil target for 1975 is higher than projections previously announced by Soviet officials. Attaining it will require extensive development of oil deposits in West Siberia, where the extremes of climate, difficult terrain, and the lack of modern equipment and requisite technology will greatly impede progress. The need for transportation and communication systems as well as for automated producing, transfer, and storage equipment and the necessity to drill more wells at greater depths probably will require extensive Soviet purchases of Western equipment and technology. Soviet oil experts visiting in the West have admitted that fulfillment of future exploration and drilling plans will depend on the acquisition of considerable amounts of Western (primarily US) equipment and technology. Finally, the forced expansion of production in the new fields may lead to a lower recovery of reserves, as has happened in the major producing fields in the Urals-Volga region, that could jeopardize future production of oil and gas.*

36. As with crude oil, much of the increase in gas output must come from the permafrost regions of the northern part of West Siberia and will face similar and perhaps even more difficult technical problems of exploitation. The most serious difficulty in meeting plans for natural gas production, however, is the installation of the necessary pipelines. The goals for oil and gas pipelines require a supply of more than 16 million tons of pipe, at least 6 million tons more than the USSR can produce or plans to import for the 1971-75 period. But even if the pipe is made available from a step-up in imports, problems of installation will be difficult to overcome. Most of the new construction involves long-distance, large-diameter (48-inch and 56-inch) pipelines from West Siberia and Central Asia to the industrial region in the European part of the USSR. New techniques and equipment will be required to build these large-diameter lines over permafrost regions and other difficult terrain. Problems experienced in such construction in the past have delayed progress on several major projects.

Electric Power

37. The goal to increase electric power output by about 7% annually during 1971-75 represents a slowdown from the preceding five years, whereas the goal for industrial output is increased. If the implied increase in efficiency in the consumption of electric power by industry is not accomplished, there could be some shortages of electric power in industry, or a reduction in the amount available for such sections of the economy as agriculture, where consumption of electric power is slated to double in the next five years. Nothing new was announced in the area of high-voltage transmission of electric power. Work on the establishment of a unified power network for the country and on the development of long-distance power transmission lines with an alternating cur-

*Several of the largest oilfields in the Urals-Volga region have been depleted prematurely because of overproduction from the best wells to meet production goals, mostly by injecting water under excessive pressures. As a result of this malpractice the 1980 goal for production of oil from the Urals-Volga region has been lowered from 350 million tons, set in 1961, to slightly more than 200 million tons, the present level of output.

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rent of 750 kilovolts (kv) and 1,150 kv and direct current transmission at 1,500 kv is a continuation of a program that has been under way for several years.

38. Kosygin's proposal for the establishment of a single European power grid holds more attraction for Eastern Europe than it does for Western Europe. During the past several winters, power shortages have been critical in East Germany and Czechoslovakia and have forced power cutbacks in Poland. Bulgaria and Hungary are dependent upon growing imports of power from the USSR.

39. The Soviet Union, in turn, is having problems planning for adequate supplies of power in its European areas, where low-cost coal is limited and most of the hydroelectric power resources already have been exploited. High-voltage transmission facilities from Siberia have not yet been developed.

40. The joining of the power systems of Eastern and Western Europe was considered in 1969 by the UN Economic Commission for Europe. A single power grid would permit the reduction of requirements for backup power for both the Western and Eastern European nations. The large network, spanning many time zones, would be able to shift its power resources to meet peak requirements at different places at different times. Among the technical problems cited were frequent voltage fluctuations in Eastern Europe and the dissimilarities between the two systems that would preclude a simple meshing.

Machinery

41. Soviet machinery output—the source of equipment for investment, military equipment, and consumer durables—is slated to increase by 11% per year, or nearly one-third above the rate attained in the past five years. As indicated above, however, there is evidence that this target may have been deliberately inflated to be consistent with growth in the official index of machinery for 1966-70—a claimed 11.8%. This official index is known to be overstated by double-counting and inflated pricing. The production of consumer durables is to grow at an impressive average annual rate of 17%, with a targeted annual increase of nearly 30% in passenger car output leading the way. The draft plan also places heavy emphasis on the continued high rate of growth of electronic equipment and computers; the overall output of the instrument industry, including computers, is to double between 1970 and 1975. The main task for the computer industry is to produce third-generation machines. The plan for the electronics industry also emphasizes the development of silicon-based integrated circuits on an industrial scale for third-generation computers and for miniaturized electronics equipment for both civilian and military purposes.

AGRICULTURE

42. As always, the performance of the agricultural sector will be a decisive factor in the successful fulfillment of the regime's economic plans. At first glance, the agricultural goals for 1971-75 appear only moderately ambitious. Net agricultural output would have to increase by about 3.7% per year above the 1970 level to achieve the official goal for the new plan period, which is

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expressed in gross terms (see Table 8).^a This is about the same rate of expansion as recorded in the 1966-70 period. The growth rate recorded in the earlier period, however, was based in a very unfavorable weather year (1965) and ended in a generally favorable year (1970), while the current goal begins on the high plateau of 1970.

Table 8

USSR: Indexes of Output, Inputs, and Factor Productivity in Agriculture

	1965=100							
	1960	1965	1966	1967	1968	1969	1970	1975 Plan
Output (three-year moving average)	85.3	100	103.5	107.7	107.7	112.3	119.2	143.0
Total inputs ^a	89.9	100	102.7	103.2	103.8	104.5	105.0	112.6
Land	97	100	99	99	99	99	99	99
Livestock	92	100	103	106	105	105	106	118
Fixed capital	58	100	107	115	124	135	146	227
Current purchases	66	100	107	115	120	124	128	171
Labor (man-days)	101	100	102	100	99	98	97	95
Factor productivity ^b	94.9	100	100.8	104.4	103.8	107.5	113.5	127.0

	Average Annual Rate of Growth (Percent)			
	1956-60	1961-65	1966-70	1971-75 Plan
Output (three-year moving average)	4.1	3.2	3.6	3.7
Total inputs	1.5	2.2	1.0	1.4
Factor productivity	2.6	1.1	2.6	2.3

^a A weighted index of the following inputs: land, livestock (all animals excluding draft), fixed capital (excluding all livestock except draft), current purchases (fertilizer, fuels, electric power, fuels and lubricants, current repair services, and industrially processed feeds), and labor (expressed in man-days). The five series of inputs are combined (using a Cobb-Douglas production function) by use of 1959 weights that represent the monetary or imputed costs attributed to each of the inputs. The shares of inputs in total costs of production in the base year 1959 were as follows: land, 17.31%; livestock, 2.91%; fixed capital, 8.42%; current purchases, 14.11%; labor, 57.25%.

^b The ratio of the (unrounded) index of output to the (unrounded) index of total inputs.

43. The regime's 1971-75 goals for agriculture as contained in the new directives are essentially the same as those released last July at a Party plenum. Highlights of the plan include: (a) total direct investments in agriculture, including rural housing and services, are scheduled to be 128.6 billion rubles—a 10.3% average annual rate of increase compared with a 9.4% average rate for 1966-70 (see Table 9); (b) flows of other types of industrial goods to the farms are to expand at an average of 6% a year compared with a rate of just over 5% in 1966-70; (c) output of the most important of these industrial goods—mineral fertilizer—is scheduled to reach an ambitious 90 million tons by 1975, with deliveries to farms of 75 million tons; and (d) 3 million hectares of land are to be newly irrigated and 5 million hectares are to be drained. In summary, the average annual rate of planned increase in total inputs is estimated to be about 1.4% per year, a moderate boost over the rate of 1.0% posted in 1966-

^a Net agricultural output is obtained by deducting from gross output the intra-agricultural uses of farm products (for example, feed for livestock).

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Table 9

USSR: Average Annual Rates of Growth of Selected Inputs in Agriculture

	Percent			
	1961-65	1966-70 Plan		1971-75 Plan
	Actual	Brezhnev Program I	Actual	Brezhnev Program II
Fixed assets ^a	11.4	13.7	7.9	9.2
Current purchase ^b	8.5	9.8	5.1	6.0
Annual investment ^c	11.3	15.1	9.4	10.3
Construction	9.9	13.8	8.6	12.0
Machinery and equipment	13.8	18.2	8.6	6.5

^a Change in the gross value of reproducible physical assets (buildings, structures, and machinery and equipment) and draft animals.

^b Change in purchase of materials from outside agriculture for use in current production activities—fertilizer, electric power, fuels and lubricants, current repair services, and industrially processed feeds.

^c Productive and nonproductive investment in agriculture. Soviet planners differentiate between "productive" and "nonproductive" uses of investment and stocks of capital assets. Nonproductive capital includes housing, municipal services, hospitals, schools, theatres, and the like. Productive assets include plant and equipment used in industry, agriculture, transportation, and other branches of the economy classified as productive in the Marxist lexicon.

70. This implies a plan for an increase in overall factor productivity of 2.3%, somewhat less than the rate of progress achieved in 1966-70. But as indicated above, the increase in factor productivity in the last half of the 1960s is influenced by the favorable weather year of 1970.

44. The implied output goals for meat and other quality foods are relatively conservative, especially considering the pressing need for a marked improvement in the quality of the Soviet diet. Success in reaching the livestock targets, as well as the overall agricultural output goal, depends heavily on achieving the projected growth in grain output (see Table 10).

45. All of the increase in grain output is scheduled to come from higher yields, as no further expansion in acreage is expected. The single most important

Table 10

USSR: Annual Average Output of Important Agricultural Products ^a

	Million Metric Tons ^b		
	Actual		1971-75 Plan
	1961-65	1966-70	
Grain	106.2	135.0	158
Sugar beets	59.2	81.0	84.6
Cotton	5.0	6.1	7.0 to 7.1
Meat (carcass weight)	8.0	10.0	12.5
Milk	59.7	75.7	86
Eggs (billion units)	28.7	35.8	46.7

^a Official Soviet data have been accepted for all commodities except grain, meat, and milk. The estimates of production for 1961-70 shown for these three commodities are by this Office. The plan for 1971-75 was derived by using the percentage increase implied in the official goals.

^b Unless otherwise indicated.

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factor in raising yields of grain and other crops will be the availability of fertilizer. Of the 75 million tons of fertilizer scheduled for delivery to the farms in 1975, about 33 million tons are to be applied to grain crops, doubling the total quantity and raising the share of fertilizer allocated to grain crops from 35% in 1970 to 44% in 1975. Soviet planners expect that nearly two-fifths of the gain in total gross farm output in 1971-75 will be attributable to the increased use of fertilizers.

46. A step-up in the rate of additions of new fertilizer production capacity in 1969 and 1970 and the ambitious plans for 1971-75 may reflect the planners' judgment that this facet of the "First Brezhnev Program" is providing a relatively greater return per ruble of expenditure than other parts of the program such as mechanization and land reclamation. In the past two years, gross additions of fertilizer production capacity averaged an unprecedented 10.6 million tons per year, with the accumulative total roughly equivalent to nearly 30% of the total capacity in place in 1968. It is noteworthy that the original 1966-70 fertilizer goal was underfulfilled to a lesser extent than other major parts of the "First Brezhnev Program."

47. Indeed, a large part of the country's additional grain output in the latter years of the 1966-70 period in comparison to the first half of the decade was attributable to expanded use of fertilizer on the "non-black-soil zone" of the northern part of European USSR, where, because of the usually adequate moisture in the region, application of fertilizer on well-limed soil provides high and stable yields. In this area, production of grain in 1969 and 1970 averaged 25½ million tons, or more than 80% above the annual average level of output attained in 1961-65. As a result, this area, which accounted for only 13% of the country's total production in 1961-65, provided more than one-third of the country's total increase in grain production between the two time periods (that is, the annual average production in 1961-65 and 1969-70).

48. During 1971-75, some 8 million additional hectares are scheduled to be irrigated and drained, compared with a gross addition of 5.7 million hectares under the "First Brezhnev Program" (see Table 11). Reclaimed land is sched-

Table 11

USSR: Gross Additions to the Stock of Irrigated and Drained Land

	1961-65	1966-70 Plan		1971-75 Plan	
	Actual	Brezhnev Program I	Actual	Brezhnev Program II	
Irrigated land					
Million hectares	1.5	2.5-3.0	1.8	3.0	
Average annual rate of growth (percent)*	14.1	8.0-14.4	0	6.1	
Drained land					
Million hectares	3.0	6.0-6.5	3.9	5.0	
Average annual rate of growth (percent)*	8.1	18.0-21.0	3.5	6.0	

* Calculated by exhausting the cumulative total for the five years over the terminal year of the previous five-year period. For example, the average annual rate of growth for irrigated land for the period 1961-65 is a constant growth rate calculated to exhaust the cumulative area of land irrigated for the five-year period when projected from the base year 1960.

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uled to play an important role in meeting the grain production plan for 1971-75. Of the 30-million-ton increase in grain output planned by 1975 (above the 1969-70 average of 139 million tons), newly drained lands are scheduled to provide 3-4 million tons, while newly irrigated acreage is scheduled to provide 4-6 million tons. If the goals for application of 33 million tons of fertilizer for grain and expanded use of reclaimed land are achieved, a large part of the additional grain production for 1975 seems assured.

49. The targeted growth in the overall size of livestock herds is 1½% to 2% per year. Recently, considerable emphasis has been placed on a reversal of the previous official policy favoring "specialization" of livestock production on fewer farms. When "specialized" farms failed to meet their livestock goals, total herds were reduced and output of livestock products either leveled off or fell. What appeared to be a reasonable and feasible proposal for taking advantage of economies of scale has now been declared by V. V. Matskevich, Minister of Agriculture, to have been a "miscalculation . . . in effecting specialization . . . hurriedly and not always with good reason."*

50. In addition to the above plans for direct material inputs, the announced sizable boost in state purchase prices for most livestock products (effective May 1970) will add a further burden to the state budget. Even without growth in the state procurements of livestock products, there will be a marked increase in subsidies at the retail level, as the state absorbs added costs of higher farm procurement prices for livestock products. Before the price increases in 1970, subsidies to cover the difference between prices paid to farms and those charged to consumers were running at about 7 billion rubles annually, equivalent to more than 15% of the official measure of national income generated in agriculture.

51. Although the new resource plans of the "Second Brezhnev Program" are less grandiose than those of the unfulfilled "First Brezhnev Program" of 1966-70, the new program is costly and will require a steady effort, free from meddling by the political leadership. In the past, altered circumstances brought changes in the planned program. For example, the bumper harvest of 1966—reflecting an exceptionally favorable growing year—led to full graneries and a serious weakening of the priority accorded the agricultural sector under the "First Brezhnev Program" which had been promulgated a year earlier.

52. As indicated above (paragraphs 24-27), however, there is evidence that the regime is determined to effect a higher and sustained flow of resources to agriculture even if the weather in the early years of the five-year period leads to higher-than-expected gains in farm output.

CONSUMER WELFARE

53. According to the new plan directives, per capita consumption will rise by 4.0% annually during 1971-75, slightly less than the rate of 4.2% achieved during 1966-70 (see Table 12). The current goal seems to be a continuation of the recent trend toward greater realism in dealing with the consumer. Khrushchev made pie-in-the-sky pledges regarding consumption but did not allocate suffi-

*Although there has been a temporary retreat from the policy of specialization, the long-run goal of eliminating small livestock enterprises remains.

SECRET**Table 13****USSR: Average Annual Rates of Growth of Consumption, by Component**

	Percent		
	1961-65	1966-70	1971-75 Plan
Total per capita consumption	2.1	4.2	4.0
Food	0.8	3.7	3.0
Soft goods	1.7	5.4	2.9
Durable goods	8.3	8.2	12.9
Services	4.3	5.1	5.5

cient resources to fulfill these promises. In 1966-70, for the first time in Soviet planning history, medium-term goals for consumption were met.

54. Despite the improved performance in consumer welfare during the Brezhnev regime, consumer discontent may be greater now than in 1965. This paradox is a result of several factors. First, despite recent gains, the level of living in the Soviet Union remains very low, even by East European standards. Soviet consumers generally are aware of this fact, and recent gains have only whetted their appetites for faster progress. Second, the expansion of incomes at a much faster rate than the supplies of goods and services has added to consumer frustration. Third, poor assortment, low quality, and shortages still abound. Fourth, those areas in which consumer dissatisfaction is the greatest—housing and quality foods—have been among the slowest to improve.

55. The fulfillment of goals for increases in the supply of quality foods during 1971-75 will permit a substantial decline in the share of daily calories obtained from the starchy staples—potatoes and grain. Meat consumption, for example, is slated to rise by 20% and that of dairy products by 12%. Even if the goal for meat production is met, however, supply will fall short of demand (at prevailing prices) and consumer discontent will continue. Throughout 1970, there were frequent reports of a complete absence of meat in state stores in many provincial cities. Per capita consumption of meat in the USSR is only about half the level of that in West Germany and approximately 60% of that in Czechoslovakia.

56. Housing ranks with quality food at the top of the list of unsatisfied demands. The housing situation has gradually improved, but even if the new five-year plan goal is achieved, per capita housing space will remain about 10% short of the minimum standards set for health and decency by Soviet officials and far short of the conditions enjoyed by other Europeans. In the late 1960s, for example, West Germans enjoyed about twice as much housing space per capita as the citizens of the USSR. Moreover, Soviet housing plans have been habitually underfulfilled.

57. The volume of state-provided everyday services (such as barber shops, public baths, shoe and clothing repair shops, and laundries) is to be doubled by 1975 for the country as a whole and nearly tripled in rural areas. Such expansion will be welcome, although the backlog of needs in these long-neglected areas will still be great. The total value of such services in 1970 amounted to

SECRET**23**

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about 4 billion rubles, roughly 16 rubles per capita, enough for a man to have a haircut every other week or for a woman to have her hair washed and set seven times a year.

58. Production of consumer durables is scheduled to expand during 1971-75 at a rate considerably in excess of the rate recorded during 1966-70. If plans are met, most Soviet families will have basic appliances by 1975. According to Soviet claims, of every 100 families, 72 will have television sets and washing machines, 64 will have refrigerators, and 85 will have radios. These claims are somewhat exaggerated inasmuch as they make little or no allowance for the retirement of worn-out appliances.

59. The availability of automobiles during the current planning period is the major issue in the durables category. The Soviet Union is only now coming into the age of mass production of automobiles. Out of a production of 344,000 cars in 1970, slightly less than one-third were sold to the public. Plans call for an increase to 1.2-1.3 million cars, including sales to the public of 800,000 by 1975. If plans are met, car sales to the public during 1971-75 could absorb approximately one-fourth of the 46 billion rubles currently held in saving accounts and thus ease inflationary pressures while boosting consumer morale. Production is considerably behind schedule already, however, and the best that a senior planning official could promise recently was that by 1975 queues would be "substantially shorter." It is estimated that in 1975 there will be about 2½ million privately owned cars in the USSR, about three times the number in 1970, but there will still be only about one car per 100 Soviet citizens.

60. Planned growth in the consumption of soft goods is down somewhat from the level of the past five years. This may reflect a further decline in the level of imports of soft goods—chiefly readymade clothing and shoes—which boosted consumption sharply in 1967 and 1968. In addition, it may reflect the elimination of, or at least a substantial reduction in, the production of poor-quality goods, preventing an inventory accumulation problem.

61. During the early 1960s, immense stocks of unwanted soft goods accumulated in warehouses; the urban population, finally adequately supplied after the war years, refused to purchase goods of poor quality and limited assortment. The problem diminished during the late 1960s when the planners distributed many of these goods to rural areas where residents had money to spend for the first time. At present, however, rural residents are apparently becoming more sophisticated and are rejecting poor-quality goods. Reports of unwanted goods accumulating on store shelves are once again common. For example, as a reflection of outmoded design and poor quality, inventories of television sets have reached two million sets, an amount equal to nearly two-fifths of annual sales.

62. Income goals for 1971-75 announced in the five-year plan suggest a renewed effort by the regime to stifle inflationary pressures. Although substantial increases are planned for all the major sources of income in the current planning period, the rate of these gains will be less than those achieved during 1966-70 (see Table 13). Nevertheless, a major feature of Brezhnev's speech at the 24th Party Congress was the announcement of a "something-for-everyone" welfare package to be introduced during 1971-75. The current welfare program, which includes 14 separate measures and is slated to cost the regime

SECRET**Table 13****USSR: Average Annual Rates of Growth of Wages Per Worker**

	Percent		
	1961-65	1966-70	1971-75 Plan
All workers	0.2	0.0	4.4
Non-farm workers	3.4	5.0	3.5
Farm workers	13.8	8.8	6.8

22 billion rubles, will add approximately 80 rubles, or about 10%, to per capita incomes by 1975. As shown in Table 14, the addition to total money incomes during 1971-75 will be about one-fifth larger than the increment during the preceding five-year period.

Table 14**USSR: Personal Money Incomes and Expenditures**

	1965	1970	1975 Plan
	Billion Current Rubles		
Total money income	123.88	183.79	255.79
Of which:			
Earnings of wage and salary workers	89.07	132.0*	179.09
Collective farm wages	9.10	13.8	17.70
Transfer payments*	15.10	23.10	39.70
State deductions from income*	8.11	13.40	18.05
Disposable money income	115.77	170.39	237.14
	Rubles		
Per capita income			
Disposable money income	501.4	701.8	932.9
	Percent		
Average annual increase*	6.3	7.0	5.9

* Transfer payments include pensions and grants, stipends to students, loan service, insurance payments less premiums, and net borrowing.

* Total state deductions include direct taxes on the population, local taxes, fees and fines, and state loans.

* Average annual rate of growth during each five-year period with the terminal year as indicated.

63. The welfare measures fall into three categories. First, a number of wage adjustments will affect the earnings of nine of every ten wage and salary workers. Second, revisions to pension and benefit programs will affect the welfare of all workers and their families and will be the source of the biggest addition to incomes in the current period. Third, the repayment of compulsory mass-subscription loans, frozen since 1958, will begin. These loans, introduced during World War II, amounted to two to three weeks' wages annually, and were treated by the state as budget revenues. Although the loans provided large sums of income to the state in the 1950s, rising expenditures for interest and loan redemption threatened to result in a net outflow. As a consequence, the state announced termination of loan sales and a 20-year moratorium on repayments. Specific welfare measures and the dates of their implementation are shown in Table 15.

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Table 15

USSR: Scheduled Welfare Measures

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- 1971 The minimum wage will be increased from 20 to 70 rubles a month.
The wages of trained workers and machine operators in agriculture will be raised.
Old age pension rates will be increased.
Taxes will be reduced for low-income workers.
- 1972 Regional wage differentials will be limited.
The pay of doctors and teachers will be raised 20%.
Stipends to students will increase 25% to 50%.
- 1973 Wage increases for medium-income workers in "productive" branches working in the southern regions of the country.
Survivors pensions will be raised for servicemen's families.
Leave to care for children will be lengthened.
- 1974 Pay will be raised for medium-income workers in the "productive" branches who have not yet received pay adjustments.
Worker disability pensions will be limited 33%.
Survivors pensions will be increased 20%.
Subsistence payments will be introduced for children of low-income families.
Annual repayments will begin on subscription loans.
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64. Although current plans call for equal growth of incomes and the availability of goods and services, past efforts to maintain this balance have failed largely because the cost of new welfare measures has exceeded estimates. The excessive cost of wage adjustments such as the boost in the minimum wage in 1968, for example, caused the average earnings of wage and salary workers to grow approximately one-third faster than planned for 1968-70. The current plan calls for another boost in the minimum wage, which may again lead to across-the-board wage adjustments in order to maintain desired wage differentials. Together with the normal wage creep associated with increasing productivity, this could thwart efforts to check the rate of wage increases.

65. With most prices fixed by the state, the excessive amount of money in the hands of the public has resulted in longer queues for scarce items, an astronomical rise in total personal savings—increasing more than fourfold since 1960—and a decline in the incentive effect of wage increases. Since 1965, per capita personal savings have grown roughly two-thirds faster than personal money income. By 1970, money held in savings accounts was equal to about 25% of annual money incomes, compared with 15% in 1965 and 13% in 1960. Although strict state controls have prevented most overt signs of discontent, the gap between income and goods continues to breed worker cynicism.

PRIVATE ACTIVITY

66. In the latest swing of the policy pendulum, it appears that there will be official support of private economic activity during 1971-75. After a climate of official indifference, if not outright antagonism, toward private enterprise, there are signs that the regime is counting on an expansion of private activity in order to meet currently planned production targets in selected sectors.

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67. The production and marketing of agricultural products and the construction of privately owned family residences are the primary forms of private activity permitted in the Soviet Union. Even though the private sector plays a major role in agriculture and housing, it generates a relatively minor proportion of overall GNP—about one-tenth in recent years. Private activity in agriculture—which contributes about 20% of total farm output—includes the production of farm products from individually allocated plots of land and privately owned livestock and the marketing of agricultural products received from personal production or in-kind distribution as payment for work in the socialized sector.* Private activity in housing provides nearly one-third of the new housing constructed each year and is concentrated in smaller cities, towns, and rural areas.

68. Long-run official policy toward private activity is based on the assumption that all citizens will eventually surrender their rights to private activity as the supply of goods and services from the socialized sector increases and, in general, can only be characterized as one of repression. However, this long-run policy is tactically flexible when necessary. In the past, campaigns to suppress private activity have alternated with periods of relaxation, with turning points often related to changes in the economic progress of the socialized sector.

69. In agriculture, the support given to the private sector during 1965-66 was replaced by indifference following the marked improvement in the performance of the socialized sector in 1966. This indifference was in turn superseded in the closing months of 1969—following the poor crop year—by an active policy of encouragement. That this support will be continued in 1971-75 is suggested by several points:

(1) Recent articles and statements reported in the press—including those made by Brezhnev and Kosygin at the 24th Party Congress—have stressed the need to encourage livestock raising in the private sector by selling individuals both young stock and feed from the socialized sector and by extending pasturing and haying rights to private owners.

(2) An impetus to the private sector was provided by a large boost in the government's purchase price for hogs and poultry in February 1970, followed by similar increases for beef and other livestock products in July. For example, the government's purchase price for an individually owned hog now exceeds the state retail price for an equivalent quantity of edible products by about 30%.**

*While private activity accounts for about 20% of agricultural production, its importance cannot be measured in this way alone. Because of the low quality and spotty availability of state-provided supplies, Soviet consumers rely either on their own plots or on direct purchases from private producers for a major share of their consumption of quality vegetables, meat, dairy products, and other highly perishable produce.

**Encouragements from the private sector accounted for 15% of industrial meat output during the first two months of 1971, compared with about 5% in recent years. This increase may be partly related to the 16% rise in government purchase prices for livestock. As a result of the new prices, there is now a substantial incentive to market private output through government channels instead of selling in the collective farm market or consuming directly. Because of the perversity in the price relationships, however, it remains to be seen if the apparent jump in industrial output of meat (20% more in the first three months of 1971 in comparison with the corresponding period in 1970) reflects a net gain in overall production. That is, to the extent that individual livestock owners are shifting from self-sufficiency to selling livestock to the state and then purchasing the processed meat from retail outlets for consumption, the reported increase in industrial meat output does not reflect increased total availability.

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(3) The planned rate of growth for private agricultural production in 1971, derived from statements by the deputy chairman of Gosplan, is above the rate posted in recent years and equal to those of the immediate post-Khrushchev period when a related attitude toward the private sector predominated.

(4) A recent statement in the press indicated that price ceilings—at least for selected products in the Moscow collective farm market—are no longer in effect. There is some evidence that price ceilings were applied sporadically during the summer of 1969 and 1970 not only in Moscow but also in collective farm markets in various other cities. The existence of local price ceilings may indicate—perhaps—that the policy to encourage private activity is not wholeheartedly supported by all elements of the leadership. Even though the ceilings still in effect are well above the price levels prevailing in state stores, their existence dulls the individual's incentive to market produce from his private plot and may prompt him either to withhold his produce from market or to utilize the "black market." On the other hand, revocation of price ceilings by collective farm markets may attract the individual producer back to the market.

70. Short-run strategies toward privately owned housing historically have been less flexible than the policies applied to private activity in agriculture. It has generally been recognized that individually built housing can help to ease housing pressures in smaller urban areas and in rural areas, but it is not a reasonable solution to the overall housing shortage. Thus it appears noteworthy that the implied 1971 plan goal for private housing (in million square meters) is 34½% above the actual 1970 level and some 18% above the average annual quantity constructed during 1966-70. Although past performance in fulfilling plan targets for private housing strongly suggests that the achievement of this goal is unlikely, some supporting evidence of an improved climate for individually constructed dwellings is provided by the 1971-75 plan directives, which state that it is necessary "to assist individual housing construction." On the other hand, more encouraging endorsement was provided in the 1966-70 plan directives which, in addition to announcing the quantity of private housing to be constructed, contained a somewhat broader statement to the effect that it was necessary "to help workers, employees, and collective farmers to build their individual homes with their own funds plus the aid of state credit." Although there was an initial spurt of 5% in 1966, completions decreased by an average of nearly 5½% annually during the 1967-70 period.

MANPOWER

71. As in the past, the directives for 1971-75 were reticent on the planned allocation of labor. Considering the additional manpower available in the early 1970s and the past history of the growth of labor productivity, however, the output goals for 1971-75 appear overly ambitious.

72. With Soviet workers only about half as productive as their US counterparts, growth of labor productivity has been an Achilles' heel in Soviet economic development. Shortfalls in the goals for productivity growth in the major sectors of the economy have been a persistent problem. Until the mid-1960s, however, deficiencies in labor productivity growth were partly overcome by transferring farm workers to urban jobs and by bringing housewives and youths into the

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labor force. These sources have been largely exhausted since the mid-1960s. Surplus labor no longer exists in large quantities on farms, and approximately 92% of the work-age population have jobs or attend school on a full-time basis. It is estimated that the highest attainable rate of growth of the total Soviet labor force will be about 1.7% annually during 1971-75, slightly higher than the rate registered in 1966-70. Moreover, because of structural shifts within the labor force, the average annual rate of growth of total man-hours may be somewhat less than the rate of growth of the labor force and 15% lower than the rate achieved during the preceding five years. Faster growth in the labor force would require cutting the size of the armed forces or restricting educational opportunities, neither of which seems likely.

ECONOMIC REFORM

73. If the plan directives and the tone of the presentations at the 24th Party Congress are guides to the regime's plans for economic reform, there will be no significant new initiatives during 1971-75. Nevertheless, experimentation with new methods of planning and management will continue during the period. Two highly publicized projects—organization of enterprises into "production associations" and the realization of labor savings via the "Shebekino" method—will be sustained and possibly expanded according to statements by Brezhnev, Kosygin, and others in the Party hierarchy. The past reluctance of central authorities to relinquish control over lower administrative echelons, however, suggests that such new methods are unlikely to have a substantial effect, one way or the other, on efficiency in the Soviet economy during 1971-75.

74. Production associations are groups of enterprises that use similar production technology or manufacture similar products. The member enterprises are usually close to each other geographically and official stress is centered on the association's role in getting research and development and production closer together. By merging individual enterprises into larger ones, the proponents of associations hope to alleviate some of the more persistent Soviet economic problems, including a lack of specialization, an unsatisfactory rate of technical progress, excessive costs resulting from duplication of management structure, uneconomic production in small enterprises, and the poor quality of intermediate goods. Current emphasis on production associations may foreshadow an official decree proclaiming them the standard organizational unit in industry. The timing of such a conversion, however, remains obscure.

75. The Shebekino experiment, wherein specified enterprises cut their work forces while meeting higher production targets, has been hailed as a success at many of the enterprises involved. It has also led to worker discontent and the problem of finding jobs for laid-off workers. Until the experiment is introduced throughout the economy on a long-term basis, its full impact cannot be assessed. Its failure to provide an efficient method for transferring surplus workers to activities where they are most needed suggests that, like earlier reforms, the Shebekino experiment will not fundamentally improve the efficiency of the Soviet economy and will be very cautiously applied, lest unemployment become serious.

76. The new plan directives mention the economic reform of 1965 only briefly, noting that the balance of the state sector will finally be transferred to the

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reform system by the end of 1975. This is only the most recent of a number of indications that the 1965 reform, as originally envisioned by some, is dead, although it has not been given a formal burial. The brief flirtation with the partial replacement of administrative commands by economic levers, such as prices and profits, appears to be over.

77. The main features of the 1965 reform—reduction in the number of economic indicators set from above, shift in success indicators to profitability and sales, and expansion of decentralized investments—were intended to give enterprise directors more freedom and the workers and managers more incentive to be efficient. A failure to change the basic operating principles of the Soviet economic administration, however, seriously limited any chance for success. To be effective, the reform should be accompanied by more rational and flexible prices, less central control over the allocation of materials, and relief from excessive demand for most materials. The leadership has given no indication that the radical changes necessary to improve matters in these areas will be introduced. Indeed, Kosygin at the Party Congress strongly reaffirmed the "guiding role" of central planning and completely rejected its substitution by the market mechanism.

78. The new rallying cry is acceleration of "scientific-technical" progress, linked with a better control of the command economy by the Party. There is no indication of plans for a major change in the system for introducing technology, although the Party for good reason has expressed considerable dissatisfaction with it.* Instead there is in this connection the resolutions of the Congress to emphasize improvement of the state planning system by the greater use of computers and improved communications, suggesting that the regime hopes such tactics will obviate the need for future reforms. The current use of computers in management is neither effective nor efficient and, with the considerable lag that exists in the USSR between computer development and application, it is unlikely that computers will have a significant impact on the Soviet economy during the current plan period.

79. There are an increasing number of indications that at least Brezhnev, if not other members of the leadership, will actively encourage an enhanced role of the Party in more direct management of the economy. After Khrushchev's removal, the new leadership made a considerable effort to reduce the Party's direct participation in the detailed management of economic affairs.** Now this trend may be countered. At the Congress, Brezhnev proposed that the Party statutes be amended to give Party organizations of ministries, state committees,

*For example, at the Party Congress, Politbureau (candidate) member Maslennikov indicated that the 1965 reform: "... is still giving a poor stimulus to the development of production on the most modern scientific and technical base. We are in this one of its major shortcomings. ..." Maslennikov does, however, call for "a bolder approach" in the creation of production associations to accelerate scientific and technical progress.

**At Khrushchev's behest, Party functionaries had increasingly become involved in day-to-day operational aspects of the economy. This break with the long tradition that held that the main function of the Party official is in the realm of propaganda and policy—not in the direct control and operational responsibility of the economy—was consistent with the Khrushchevian approach to economic management; administration was a kind of continuous trouble shooting only to be entrusted to Party men not to functionaries of economic bureaucracies who are hidebound by rules.

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and other central economic institutions and departments the duty to control the activity of the establishment in carrying out the leadership's directives.

"... it is the direct duty of the Party organization to control the organization of work in the apparatus of the ministry itself, and the observance of Party and state discipline by its officials."

80. As Christian Duvel of Radio Liberty has indicated, "any stipulation requiring the Party organization to control the implementation of Party and government directives can obviously be stretched to cover practically every aspect of a government agency's operation."

81. As another possible indicator of the Party's expanded role in the direct control and operational responsibility of the economy Brezhnev failed to condemn as he had at the 1966 Party Congress the practice of the Party of exercising "petty tutelage" over economic establishments. Indeed, a climate for more interference from Party organs in economic decision-making was established by a considerable volume of criticism by speakers at the Congress of government economic organs and their heads. The pattern of criticism seems to have been designed to leave the impression that the Party has been doing its job and that economic problems are largely the fault of government bureaucracies.

FOREIGN TRADE

82. The new plan calls for an average annual rate of growth in trade turnover of about 6%, the same rate of growth scheduled for GNP in 1971-75, but considerably slower than the average rate of increase in trade of 8½% posted in 1966-70.

83. The USSR conducts more than half of its trade with the countries of Eastern Europe. Moreover, according to the recently concluded 1971-75 trade agreements, Soviet trade with these countries is scheduled to expand at an average rate of about 7.7% per year. Assuming a fulfillment of the official plan for growth of total trade—from \$24.5 billion in 1970 to \$32.8 billion in 1975—this would leave only about \$11.7 billion in trade with all other countries—Communist and Free World. Soviet trade with other Communist countries—North Vietnam, Communist China, North Korea, Mongolia, Yugoslavia, and Cuba—was valued at \$2.6 billion in 1970. If the value of this trade remained at the same level in 1975 as in 1970—a highly unlikely prospect—a residual of about \$9.1 billion is left for trade with the Free World. Since this trade was valued at \$3.5 billion in 1970, the \$600 million increase by 1975 would imply an average annual growth of only 1½%.

84. But [redacted] the projected 33%-35% increase in total Soviet foreign trade is a minimum figure. On the other hand, [redacted] unless these countries purchase more from the USSR, Soviet purchases will not increase. In this context, the low official target for growth of overall trade may serve as a warning to Western trade partners that Soviet indebtedness to the developed West, coupled with relatively low holdings of foreign currency, imposes a heavy constraint on Soviet ability to import and a step-up of exports of Soviet goods is required. In any case, the USSR will be very reluctant to reduce imports of Western machinery and equipment. One partial approach the Soviet leaders

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have to accelerating domestic growth and to narrowing the technological gap that exists between the USSR and the West lies in expanded imports of machinery and equipment from abroad.

85. Consistent with the long-run Soviet desire to achieve self-sufficiency of agricultural products, regardless of domestic costs, the new plan calls for a doubling of rice production by 1975. The inordinately high price of self-sufficiency and collective farming is underlined by the comparison of the delivery price of \$490 per ton paid domestic producers (rubles converted to dollars at the official rate of exchange) and the world market price of about \$151.

OUTLOOK

86. Although the draft of the new plan is generally a realistic projection of trends of the recent past, it is doubtful if all of the targets for growth of the principal sectors can be accomplished. Instead of attaining a planned rate of increase of GNP of nearly 6%, it is more likely that only 5% will be achieved. In any given year the rate of growth may vary widely from this average because of fluctuations in farm output. This forecast rests on a projection that: (1) man-hours worked will increase less rapidly than in 1966-70; (2) the rate of growth in investment in plant and equipment will continue to decline slowly, as it has since the mid-1950s; (3) military expenditures will rise at about the rate of the past five years, 5% a year; and (4) productivity gains will resemble those achieved in the past five years.

87. The USSR will have difficulty in maintaining the average annual rate of growth of total inputs of the 1960s (3.6%). Because rates of worker participation for the various categories of the population have nearly reached their maximum, the growth in the labor force over the next five years has already been fairly well determined by past demographic trends. As described above (paragraphs 71-72), these trends, coupled with structural shifts in the economy, will most likely result in a somewhat lower rate of growth of total man-hours worked in the coming five years (1½% compared with the average annual of nearly 2% for 1966-70). Similarly, the probable outlook is for a slightly lower rate of growth of fixed assets (7% compared with 7½%). The average annual rates of growth of the other two major classes of inputs—land and livestock—will either remain the same (land) or rise moderately (2% for livestock compared with about 1% earlier). This pattern of growth in resources implies an overall average annual rate of increase of total inputs of around 3%. On the basis of past experience, there is little reason to believe that factor productivity will grow much faster than the annual rate of roughly 2% registered in 1966-70. This rate of growth in output per unit of input combined with a 3% growth of resources implies an average annual rate of growth in GNP of 5%. But if agriculture were to experience better-than-average weather, coupled with some speedup in completing various industrial construction projects or a temporary letup in the rate of inventory accumulation by pressing administrative campaigns to "uncover hidden reserves," this rate could improve somewhat during 1971-75 and perhaps equal the growth of the last five years. On the other hand, if the recent decline in the return on investment in new plant and equipment in industry continues and if weather conditions are below average for crop and livestock production, the rate of growth in GNP could drop below 5% per year.