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The Soviet Economy: 1974 Results and 1975 Prospects

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The Soviet Economy: 1974 Results and 1975 Prospects

Moscow feels more secure about its position in the international economy than ever before. Soviet economic growth continues, at a moderate rate, while output is declining in many Western economies. Because of its centrally controlled economy and its economic self-sufficiency, the USSR has been shielded from the recession and double-digit inflation plaguing the West. Thanks to an export surplus in oil and raw materials, the Soviet balance of payments has benefited from high world market prices. But basic problems of low efficiency and an inability to quickly apply new technology remain, and Moscow cannot readily translate its temporary advantages in dealing with the West into remedies for its long-term economic ills.

- Overall Soviet growth slowed to 3% in 1974.

- A slump in farm output caused by poor weather was the major cause of last year's slowdown; still, agriculture enjoyed its second best year ever.

- Although consumers made smaller gains in living standards than in 1973, the regime's commitment to improving levels of living remains firm. Prices continued stable, although, as usual, not all goods and services were regularly available at official prices.

- Trade with the West boomed in 1974, with price increases for Soviet oil and other raw materials far outweighing price increases for imports; the result was a major turnabout in Moscow's hard currency position.

- The trade deficit with the United States fell to one-fourth of its 1973 level, largely because of smaller grain imports and larger exports of platinum and oil.

Soviet leaders anticipate a rebound in economic growth in 1975. This expectation is reasonable, although major goals of the five-year planning period (1971-75) are unattainable.

- Overall economic growth is scheduled to rise by 7%, twice the 1974 rate. The Soviet Union could narrow the economic gap with the United States by a record amount.

- Agricultural production is listed for an 11% increase, after last year's disappointing performance. So far, weather and soil conditions look good for a bumper grain crop.

- Industrial growth is to match last year's pace; success will depend on the timely completion and equipping of investment projects.

- Consumers retain a high priority. Notwithstanding, many five-year consumption goals will not be met, because of the disappointing harvests of 1972 and 1974 and the lagging construction of new consumer goods capacity.

- Trade with the West will continue to boom, with Moscow well able to step up purchases of machinery and technology; the Soviet hard currency position will remain strong because of exports of high-priced oil and other raw materials and of possible gold sales.

From a longer run perspective, the Soviet economy continues to be restrained by endemic problems which are largely responsible for the failure to meet major five-year plan goals.

- Increases in productivity remain below expectations, particularly in the farm sector.

- The slow introduction of new techniques and new products into large-scale production continues to characterize Soviet industry and is unlikely to be remedied by the piecemeal reforms under consideration.

- The poor assortment and quality of consumer goods, unresponsive services, and limited housing persist.

We believe that the relatively good internal growth and the greatly strengthened external economic position will allow the leadership to put off bold innovative reforms needed to solve these basic problems.

DISCUSSION

Economic Performance in 1974

1. Soviet economic growth slowed markedly in 1974. According to our preliminary calculations, gross national product (GNP) rose by 3.2%, less than one-half the 1973 rate. A 3.3% dip in agricultural output exerted a serious drag on overall economic growth because agriculture represents almost one-fourth of GNP. Industrial growth, the largest component of GNP, had its best year since 1970 (see Table 1).

Table 1

USSR: Growth of GNP, by Sector of Origin[1]

Percent

	Average Annual 1966-70	1971	1972	1973	Preliminary 1974
Gross national product, by producing sector	5.5	4.2	1.8	7.5	3.2
Agriculture[2]	4.6	0.1	-7.0	16.4	-3.3
Civilian industry	6.8	6.5	5.6	6.2	6.8
Construction	7.0	8.7	6.4	2.2	5.0
Transportation and communications	6.2	6.6	4.9	7.3	6.6
Domestic trade	8.2	6.8	6.9	5.4	5.9
Services	4.4	4.0	4.2	3.7	3.7

1. Calculated at factor cost.
2. This measure of agricultural output excludes intra-agricultural use of farm products but does not make an adjustment for purchases by agriculture from other sectors. Value added in agriculture grew by an average of 4.1% in 1966-70, 0.6% in 1971, -9.1% in 1972, 16.5% in 1973, and -5.2% in 1974.

2. The Soviet leadership seems generally satisfied with economic performance. The tone of the economic report of last December's Communist Party plenum was much less critical of economic planning and management than the previous year's report. Although old problems were recounted -- low productivity, uncompleted construction projects, poor economic management, and the slow introduction of new technology -- no hints were given, as in 1973, of imminent economic reform.

3. The more complacent note probably results from several factors:

- Growth in GNP compared favorably with growth in the recession-hit West. In fact, the absolute difference in GNP between the United States and the USSR declined in 1974 by a record $50 billion (see Figure 1).[1]

- Industrial production – the economic bellwether of the leadership – was in high gear.

- Grain output at 195.6 million metric tons was the second highest in history, and cotton production reached a new peak. Moscow contracted for only 7 million tons of grain for delivery in FY 1975 and carried over large grain stocks from the 1973 record harvest.

- Consumer welfare continued its steady rise. Moscow's broadcasts to the West in the last year touted the price and employment stability characterizing the Soviet system.

- Increases in the world prices of oil and other Soviet raw materials resulted in a hard currency surplus of about $1 billion, compared with nearly a $1 billion average deficit in 1970-73. This development is strengthening Moscow's ability to import Western technology and equipment.

Industry

4. Industrial output grew by an estimated 6.8% in 1974 – the largest annual increase since 1970 (see Table 2). Adequate supplies of raw materials and energy were major factors contributing to this growth. Moreover, nearly two-thirds more workers were added to industrial payrolls than was planned, and only minor disruptions of the industrial supply system and labor force occurred during the peak harvest activities. Industrial labor productivity increased 6.5%, the highest rate in this five-year plan period. The industrial branches contributing most to the good performance were:

- ***Most energy producing branches***, led by oil and gas.

1. This narrowing of the gap has occurred in three other years since 1960. A further narrowing is in prospect for 1975 as a result of continued Soviet growth and an expected decline in US GNP. A reversal is likely during the next upsurge in the US business cycle. Because the US economy is twice the size of the Soviet economy, US growth need be little greater than one-half of Soviet growth to widen the gap again.

- ***Producer durables***, in particular, automobiles, technically sophisticated capital goods (turbines, instruments, and computers), and agricultural equipment. The production record of these items mirrors the leadership's priority for technological growth and expansion of agricultural output.

- ***Processed foods***, reflecting the increased supply of agricultural raw materials from the record harvest in 1973.

- ***Chemical products***, especially mineral fertilizers and pesticides, again reflecting the importance given to agriculture.

Table 2

USSR: Growth of Civilian Industrial Output

Percent

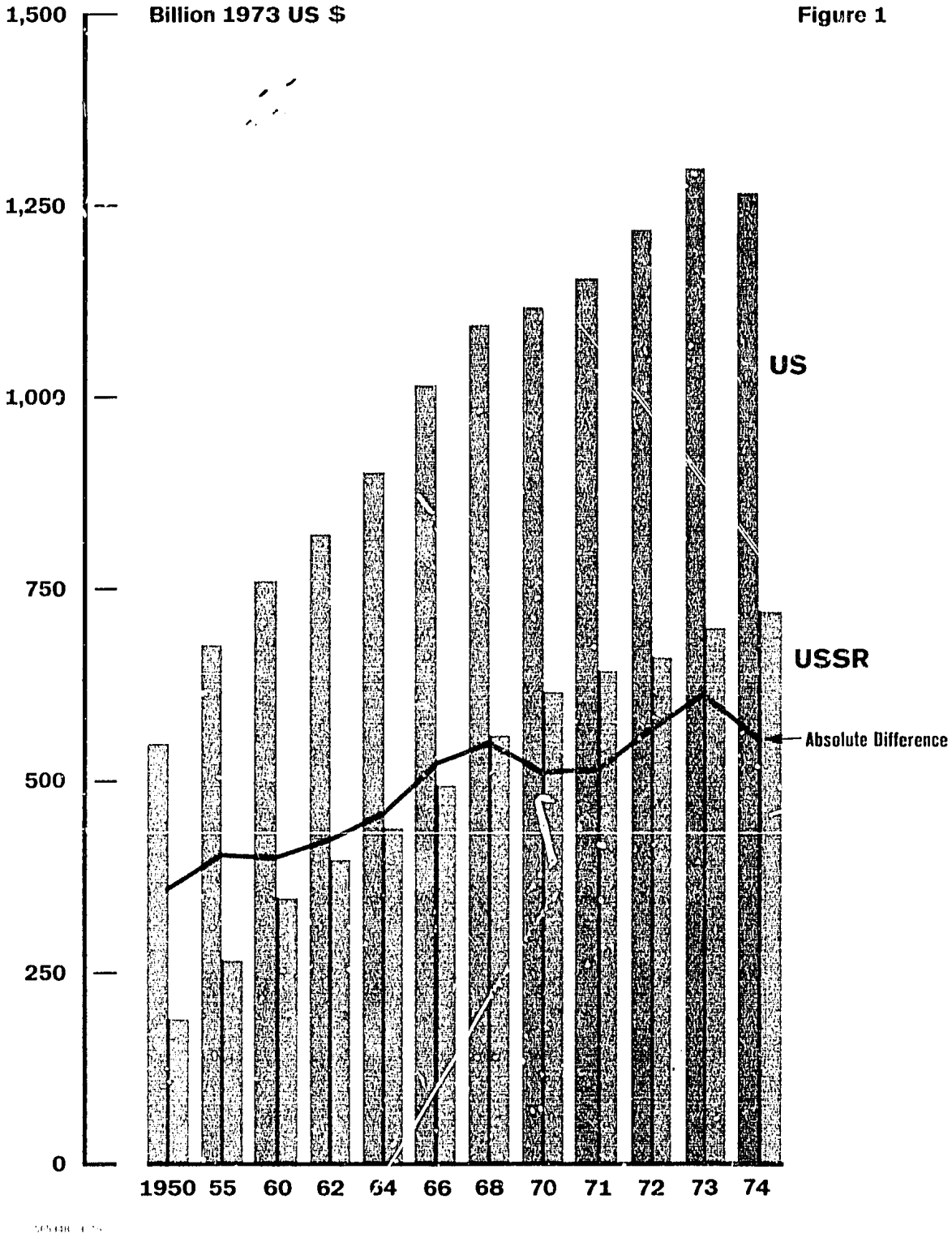
	Average Annual 1966-70	1971	1972	1973	Preliminary 1974
Total civilian industry	6.8	6.5	5.6	6.2	6.8
Leading branches in 1974					
Electric power	7.9	8.1	7.1	6.6	6.6
Coal products	2.0	2.5	2.1	2.0	2.6
Petroleum products and natural gas	7.8	6.9	7.3	6.3	7.1
Civilian machinery	9.1	11.5	10.5	10.0	10.8
Processed foods	4.7	3.0	3.5	3.1	9.1
Chemicals	9.0	8.1	6.9	8.1	9.9
Lagging branches in 1974					
Ferrous metals	5.5	3.9	3.6	4.0	3.3
Nonferrous metals	8.3	5.1	4.9	7.0	6.0
Forest products	3.5	3.7	3.3	4.3	2.8
Paper and paperboard	7.2	5.5	4.5	6.0	4.0
Construction materials	6.2	5.7	4.6	5.7	5.0
Soft goods	8.0	4.5	0.6	3.4	2.5

5. Growth slowed in all other industrial branches in 1974, largely because of delays in construction of new facilities and difficulties encountered in bringing new capacity into production.

Energy Production

6. The USSR is richly endowed with fuels and electric power resources, a factor strengthening the Soviet position in today's energy-hungry world. In 1974

US-USSR: GNP



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the 5.9% growth of primary energy production well exceeded the 5.0% average growth of the preceding eight years. Output was sufficient to meet the needs of the Soviet economy as well as to provide a growing surplus for export. Production targets set in the original five-year plan generally have not been met, however, with coal an exception.

7. In 1974 the Soviet petroleum industry confronted technical problems that may restrict or even stop growth in production by the late 1970s. The rate of discovery of new oil reserves faltered because of the poor quality of seismic and drilling equipment and the inadequacy of funds allocated to exploration. Proved oil reserves thus were depleted more rapidly than expected. Soviet technical experts acknowledge that Western equipment and technology would be of substantial help in locating and developing new oil fields, particularly offshore.

8. The output of natural gas in 1974, although below the original plan, still was 10.5% above the 1973 level. Growth can be attributed to the completion of large-diameter pipelines from major gas deposits in northern Tyumen Oblast and in Central Asia. The Soviets are becoming increasingly dependent on imports of large-diameter pipe, compressors, and valves from the West. In 1974 alone, the USSR contracted for about 4 million tons of large-diameter pipe from Western Europe for delivery through 1979. In return for these and earlier contracts, the USSR will supply 24 billion cubic meters of natural gas annually to Western Europe by 1980.

9. Coal output in 1974 exceeded the original five-year plan target as it had in 1971-73. These increases, although small, helped cushion the shortfalls in oil and gas production.

10. A decline in the growth of electric power production during this five-year plan period is largely a result of (a) slow growth in hydroelectric power output because of a lack of rainfall in the European USSR, and (b) a lag in the erection of new powerplants. In 1974, less than 10,000 megawatts (MW) of capacity were put into operation, instead of the 11,300 MW planned.

Other Industries

11. The machinery sector led the growth parade again in 1974; high performers within the sector were:

	Percentage Increase in Output
Computer equipment	34
Vacuum cleaners	25
Passenger cars	22
Agricultural machinery	16
Chemical equipment	12
Textile industry equipment	12
Food industry equipment	10

12. An increase of 50% was estimated for the second-generation Minsk-32 computer and 200%-300% for the new RYAD family of third-generation computers. Although coming in slightly below plan, the passenger car industry performed well. The Tol'yatti plant operated near capacity toward the end of 1974, and the recently expanded plants in Moscow and Izhevsk producing Moskvich automobiles should reach capacity during 1975. The agricultural machinery industry has turned in an impressive performance during 1971-74, growing at an annual average rate of 13% compared with about 6% in 1966-70.

13. Another star performer was the chemical industry, although it was berated by the press for the second straight year for failing to complete facilities on schedule. The commissioning of new production capacity for fertilizer production was only two-thirds the amount planned, and new plastics production capacity commissioned in 1974 was less than in any year during 1970-73. Furthermore, the availability and quality of many chemical products such as tires and manmade fibers continued to fall below demand. The chronic inability of Soviet industry to meet requirements for modern chemical equipment resulted in record purchases – US $1.1 billion – of Western chemical equipment in 1974.

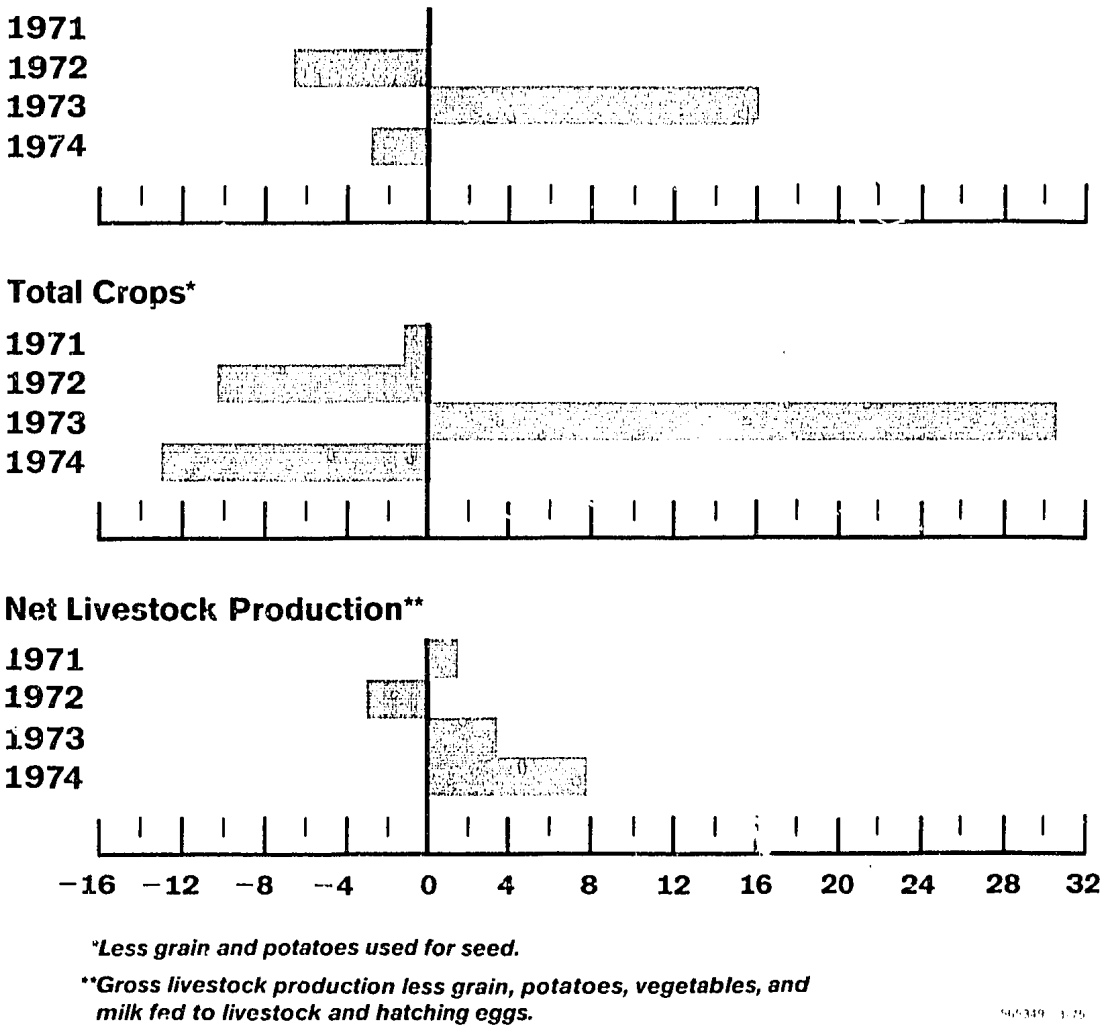
14. In 1974 the Soviets regained their position as the world's largest steel producer. As in the chemical industry, however, the failure to broaden the assortment and produce high-technology items spurred increasing imports from the West. Moscow now imports such special types as large-diameter pipe, oil field tubular steel, and flat rolled products. In 1973 the value of imports of steel exceeded the value of exports for the first time in many years. These difficulties are attributable to the lagging rate of construction of new capacity. Only 6.9 million tons of new crude steelmaking capacity were completed in 1971-74, compared with planned construction of 21.8 million tons of capacity in 1971-75. Recent Soviet efforts to procure foreign equipment and technology will yield only limited benefits during the remainder of the 1970s.

Agriculture

15. Despite poor weather in major crop regions, agricultural output in 1974 was the second largest in Soviet history. Compared with the record year of 1973, however, last year's agricultural output fell sharply, pulled down by a drop of 13.2% in crop production (see Figure 2). Livestock output, bolstered by good feed supplies from the 1973 crop, grew by 7.9%.

USSR: Percentage Change of Agricultural Output

Figure 2



*Less grain and potatoes used for seed.

**Gross livestock production less grain, potatoes, vegetables, and milk fed to livestock and hatching eggs.

16. Production of all major crops except cotton was down from the records achieved in 1973 (see Table 3) Grain output, although the second largest in Soviet

Table 3

USSR: Production of Selected Crops and Livestock Products

	Average Annual 1966-70	1971	1972	1973	Preliminary 1974
	Million Metric Tons				
Crops					
Grain (gross)	167.7	181.2	168.2	222.5	195.6
Potatoes	94.8	92.7	78.3	108.2	80.7
Sugar beets	81.1	72.2	76.4	87.0	76.4
Sunflower seeds[1]	5.9	5.2	4.6	6.8	6.2
Vegetables	19.5	20.8	19.9	25.9	23.1
Cotton	6.1	7.1	7.3	7.7	8.4
	Thousand Metric Tons				
Livestock products					
Meat (slaughter weight)	11,583	13,272	13,633	13,527	14,500
Milk	80,553	83,183	83,181	88,300	91,800
Wool	398	429	420	433	461

1. Estimated usable production. Soviet official statistics discounted by 8%.

history at 195.6 million tons, was 12.1% below 1973 and almost 10 million tons shy of the plan goal. Winter grains suffered from above-normal winterkill, and a summer drought in parts of the New Lands area reduced the output of spring grains. As a result, the wheat crop was the smallest since 1969 -- 83.8 million tons, compared with 109.7 million tons in 1973. Late planting and cool, wet weather at the end of the growing season dropped the corn harvest 8% below the 1973 level despite a 12% increase in acreage planted.

17. Grain production was 5-10 million tons short of domestic requirements and export commitments. Soviet leaders had the option of reducing reserves built up after the 1973 harvest or importing foreign grain. They apparently chose to leave the stocks largely untouched and contracted to import almost 7 million tons of grain for delivery in FY 1975. In early 1975, Moscow canceled 232,000 tons of the wheat imports, which had probably represented a small hedge against continued tight world supplies and a poor harvest in 1975. World grain prices now are declining, and prospects for the Soviet winter grain crop are excellent.

18. In addition to damaging the corn crop, the poor fall weather also trimmed the potato and sugar beet harvests. Disease and damage from wetness not only reduced the potato crop by 25% but also will cause abnormal storage losses. Potatoes are important as both a food and livestock feed, particularly for hogs. Sugar beet output was 12% below last year. The estimated 8.6 million tons of sugar produced from these beets combined with anticipated 1975 imports of about 1.9 million tons from Cuba and recent foreign purchases of another 270,000 tons will still leave the Soviets about 1 million tons short of planned requirements. This gap may be filled by reducing consumption as in 1972, reducing already low stocks, or contracting for additional imports. Current short supplies and high prices on world markets may discourage additional imports, particularly since the recent Soviet purchases were a major factor in boosting sugar prices to record levels in November 1974.

19. Production of sunflower seeds, which provide about three-fourths of Soviet vegetable oil, was above plan, but 9% short of the 1973 record. The current crop should permit continued exports of sunflower seed oil, made particularly attractive by high world prices.

20. Brezhnev's livestock program continued to chalk up impressive gains in 1974 (see Table 4). All major categories of livestock herds grew; the number of cattle was up 3%. Livestock products were also more abundant; meat output was up 1 million tons in 1974 after having dropped slightly in 1973. Higher slaughter weights and milk yields reflected improved feeding rates.

Table 4

USSR: Livestock Inventories

	Million Head on 1 January				
	1971	1972	1973	1974	1975
Cattle	99.2	102.4	104.0	106.3	109.1
Of which:					
Cows	41.0	41.2	41.7	41.5	41.9
Hogs	67.5	71.4	66.6	70.0	72.2
Sheep and goats	143.4	145.3	144.7	148.5	151.1

21. The two disappointing harvests – 1972 and 1974 – of this five-year plan period apparently have not shaken the leadership's belief that large annual fluctuations in farm output can eventually be ironed out by generous injections of investment resources. In 1974, the ambitious Brezhnev program for agriculture

continued to be implemented on schedule, and new schemes to stabilize this sector's contribution to growth were introduced. Total investment in agriculture last year rose by 9% and took more than one-fourth of the country's investment resources. Since 1970, mineral fertilizer deliveries to the farms have increased by almost 9% annually. Additional large sums have been spent on modernizing the livestock sector, building new grain elevators, and reclaiming land.

22. In March 1974, Brezhnev unveiled a 15-year plan to develop the non-black-soil zone of the Russian Republic (see Figure 3). In the first phase, 1975-80, 35 billion rubles will be spent, a sum equivalent to almost one-fourth of the total agricultural investment planned for 1971-75. The new program will include land reclamation projects (irrigation and drainage) as well as the application of more agricultural chemicals, delivery of new machinery, and the construction of livestock complexes and infrastructure (rural housing, services, and roads).

23. The non-black-soil zone is already an important producer of agricultural products and was targeted for some attention in Brezhnev's earlier agricultural programs of 1965 and 1970. Although it has a relatively short growing season, the zone has the highest average annual rainfall of any agricultural area in the European USSR. The Soviets hope that the area will become a stable base for grain output to counter erratic production caused by undependable rain in the New Lands and the black-soil zone. An added incentive is that the program will not require the huge influx of additional workers that was needed for the development of the New Lands, because this area is already heavily populated. In any case, major benefits from the non-black-soil program will not be realized before 1980.

Capital Investment

24. The leadership has tried to concentrate investment resources on the expansion and modernization of already existing plants and on the completion of projects long under way. In 1974, investment was again focused upon completing on-going projects. However, gross additions of new fixed capital increased by only 4%, only two-fifths the rate achieved in 1973 (see Table 5). This slowdown probably reflects shortfalls in the procurement and installation of equipment rather than a return to the proliferation of new construction starts that characterized previous Soviet investment programs.

25. Press articles and leaders' speeches indicate that the construction sector was the chief economic headache of 1974. Gosplan Chairman N.K. Baybakov's

USSR: The Non-Black Soil Zone*

Figure 3

December speech attributed numerous unfilled output goals, particularly consumer goods, to the failure to put new capacity into production. Lagging capital construction represents a seemingly irremediable flaw in the management of the economy.

26. Economic planners had originally depended upon a brisk construction pace to support the acceleration in production scheduled for 1974-75, the last two years of the five-year plan. This timetable does not conform to Soviet

Table 5

USSR: Growth in Capital Investment

Percent

	Average Annual 1966-70	1971	1972	1973	Preliminary 1974
Total new fixed investment	7.6	7.2	7.1	4.6	7.2
Gross additions of new fixed capital	8.3	6.3	3.3	10.5	4.0
Backlog of unfinished construction	12.1	10.3	12.7	2.9	N.A.

experience. In past five-year plans, lags in construction have led to a bunching of completed projects toward the end of the plan period, which in turn has resulted in increased production in the early years of the next plan.

Consumer Welfare

27. The consumer enjoyed another noticeable increase in his level of living in 1974; the improvement was slightly smaller than in 1973 (see Table 6). Special indicators of increasing affluence were among the biggest gainers. High-quality foods such as meat and dairy products became more available as promised by the Brezhnev farm program; per capita consumption of animal products rose 4.4% and of processed foods by 3.6%. Increased consumption of soft goods, largely shoes and clothing, suggests that the campaign for better quality may be producing results at last. The reduction in inventories may also be the result of price reductions on slow-moving items.

28. Purchases of consumer durables in 1974 were led by a 7% growth in furniture sales and a whopping 35% growth in automobile sales to the public. Soviet citizens bought 64% of annual automobile output, compared with only 36% in 1970 (see Table 7). The services network and other supporting facilities are not keeping pace with output.

29. In the services category, housing continued to be the consumer's most pressing problem. Despite an enormous construction program – an average of 108.6 million square meters of new housing added annually since 1970 – per capita living

Table 6

USSR: Growth in Per Capita Consumption[1]

Percent

	Average Annual 1966-70	1971	1972	1973	Preliminary 1974
Total consumption	5.0	3.6	1.5	3.4	3.2
Food	3.9	3.3	0.1	3.6	3.0
Soft goods	6.6	3.4	1.3	2.2	2.5
Durable goods	8.4	4.3	6.1	5.3	5.1
Personal services	6.7	5.8	6.1	4.6	5.4

1. Established prices, 1968.

Table 7

USSR: Automobile Production and Sales to the Public

	1970	1971	1972	1973	1974
	Thousand Units				
Production	344	529	730	917	1,119
Sales to the public	123	222	378	532	718
	Percent				
Sales as share of production	36	42	52	58	64

space has grown by only 8%, from 7.5 to 8.1 square meters. On the bright side, the number of communal apartments – shared kitchen and bath facilities – is declining, as more families move into private apartments.

30. The slower growth in the consumption of some consumer items in 1974 reflected either the downturn in farm output or the increasing sophistication of the Soviet consumer. Poor weather reduced supplies of potatoes, vegetables, and fruits. Per capita consumption of most durable goods did not match the growth in their production, indicating the increasing reluctance of the Soviet consumer to buy goods of poor quality and variety.

31. Wages and per capita income in 1974 continued to fall behind the planned rates (see Table 8). Much of the Brezhnev's 1971-75 "welfare package," including raising the minimum wage and reducing taxes for low-income workers, has been delayed in order to keep incomes in line with available goods and services. Nevertheless, savings accounts increased by 15% to nearly 80 billion rubles in 1974; they are now equivalent to about 35% of total money incomes, up from 25% in 1970.

Table 8

USSR: Growth of Income and Wages

Percent

	Average Annual 1966-70	1971	1972	1973	Preliminary 1974	Average Annual 1971-75 Plan
Real per capita income	5.8	4.5	3.7	5.0	4.2	5.5
Wages of non-farm workers	4.8	3.2	3.5	3.7	4.3	4.1
Wages of farm workers	8.0	3.0	4.7	5.9	5.0	5.5

32. The open discussions following recent public lectures in Moscow and Leningrad indicate some discontent among workers that the five-year plan promises to raise wages and benefits have not been kept. Perhaps in recognition of this concern, some of the welfare measures will be enacted in 1975, including an increase in the minimum wage (promised since 1971) and the redemption of 1 billion rubles of bonds (frozen since 1958).

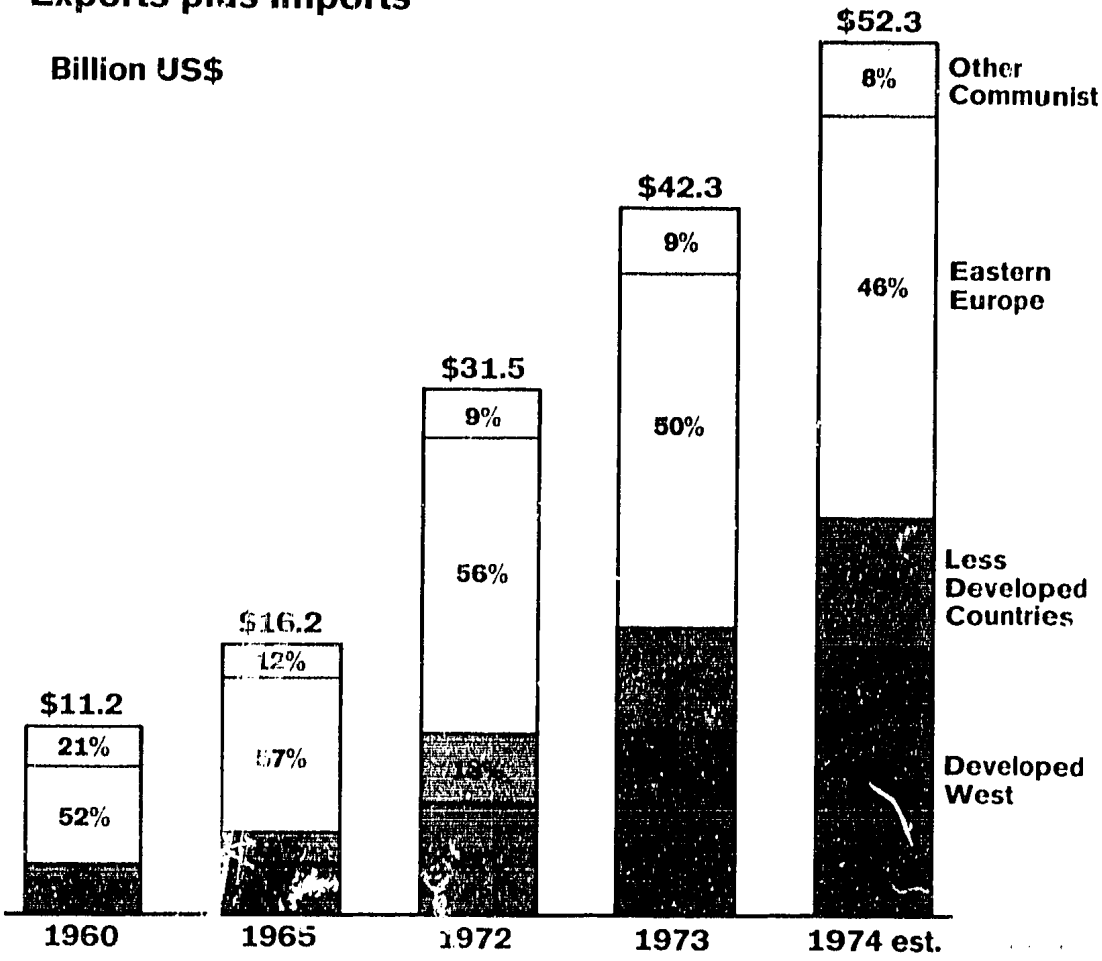
Foreign Trade

33. Soviet foreign trade increased by almost 24% in 1974 and totaled more than $52 billion (see Figure 4). Trade with the developed West grew about 48%, following a nearly 59% increase in 1973, and accounted for 31% of total Soviet foreign trade. A cutback in agricultural imports from the West was in part responsible for the lower rate; at the same time, increases in world prices of several commodities, particularly oil, provided the Soviets with a substantial windfall gain in hard currency earnings and sharply improved the USSR's terms of trade with the West.

34. Trade with Communist countries grew by only 14%, resulting in a further decline in their share of Soviet trade. This is explained in part by fixed prices in CEMA trade rather than by a reduction in volume. Trade with Eastern Europe

USSR: Foreign Trade, by Major Area
Exports plus Imports

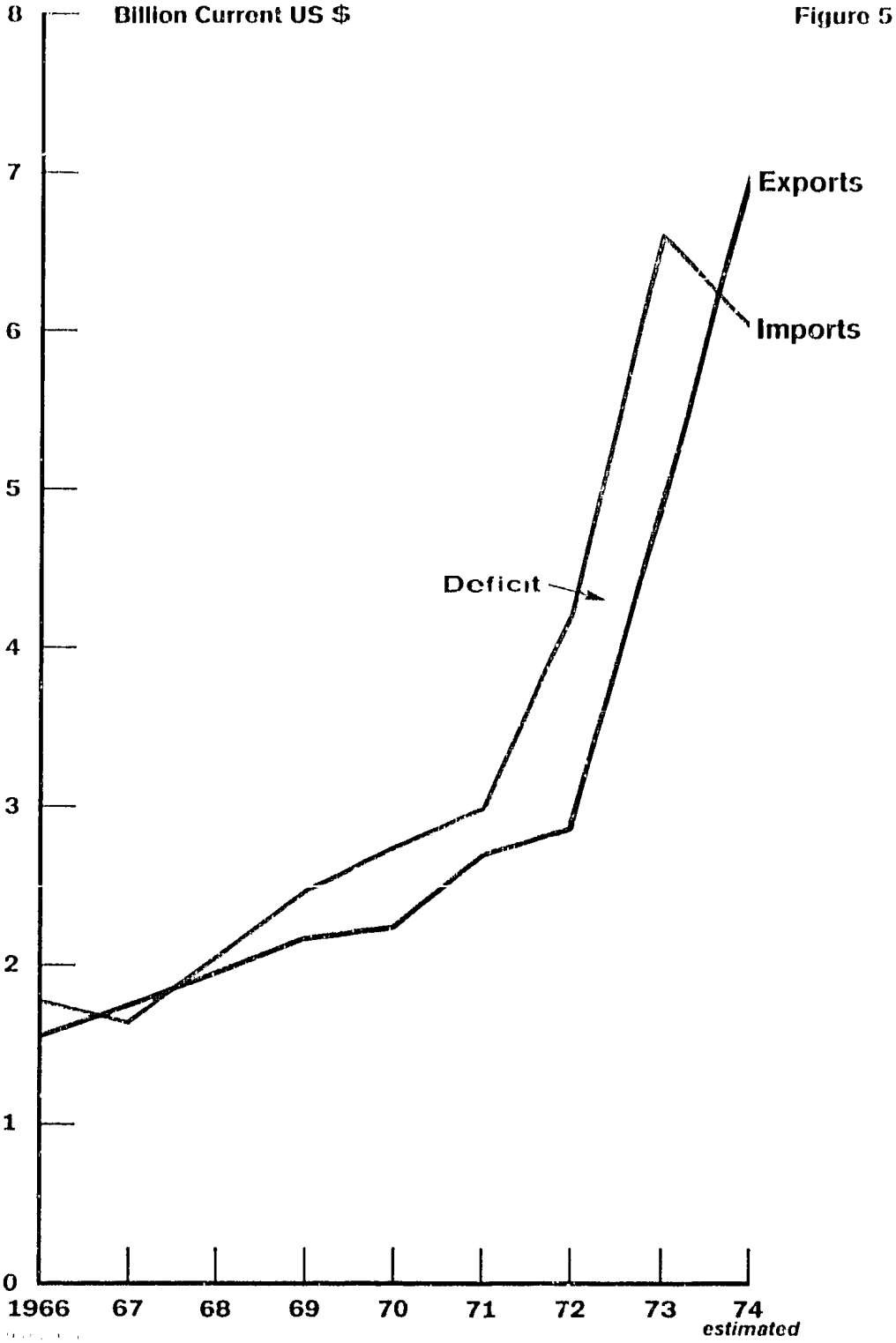
Figure 4



is estimated at about $24 billion and is likely to have been in deficit by about $300 million. This compares with deficits of about $1 billion per year in 1972 and 1973, which resulted primarily from large increases in Soviet purchases of machinery and equipment and consumer goods and reduced Soviet grain sales to Eastern Europe.

35. The improvement in the USSR's terms of trade with the West in 1974 and the cutback in grain imports combined to produce a hard currency trade surplus estimated at about $1 billion (see Figure 5). Despite its greatly strengthened financial position, the USSR continued to sell gold during the year to take advantage of high prices. Moscow also continued to seek low-interest credits from the West to finance imports. For example, roughly $3.75 billion in credits were extended by France and Japan in 1974 in support of contracts negotiated that year and

USSR: Hard Currency Merchandise Trade



for planned Soviet development projects. Although continued drawdowns on Western credits increased Soviet indebtedness to $4.2 billion in 1974, the debt burden actually eased because of greater exports. Debt service payments of about $1 billion represented only 15% of its hard currency exports in 1974, down from 17% in 1973.

36. Western equipment and technology is a growing element in the Soviet scheme to upgrade its industry. In 1974, the USSR ordered a record volume of Western machinery and equipment (see Table 9), in addition to placing about $2.5 billion in orders for large-diameter pipe for oil and gas pipelines. Soviet machinery orders from the West totaled $4.1 billion in 1974 – a 78% rise over 1973.

- Contracts for mining and construction equipment skyrocketed to $765 million – 38 times the 1973 level; this boom largely reflected orders in support of the construction of the Baikal to Amur railroad (BAM) (bulldozers, tractors, and heavy duty trucks) and the development of Yakutsk coal reserves.

- Equipment for the chemical industry – a chronically weak area of Soviet machine building – more than doubled to $1.1 billion, including orders for 12 ammonia plants (valued at $675 million) for various fertilizer complexes in the USSR.

- Orders for metallurgical equipment and the motor vehicle industry declined, partly a reflection of delays at the Kama Truck Plant.

37. The Japanese are particularly active in helping develop Siberian resources. In 1974, credits worth more than $1 billion were extended to develop Yakutsk coal, Sakhalin offshore oil, and Siberian timber. Joint US-Japanese participation in the multi-billion dollar Yakutsk LNG project is now in jeopardy, however, because of restrictions on US Eximbank lending to the USSR. Soviet relations continue to develop favorably with West Germany, Moscow's leading Western trading partner. In 1974, agreement was reached on the joint development of a $1 billion metallurgical complex at Kursk and on increased Soviet deliveries of natural gas in exchange for West German steel pipe. In addition, negotiations continue to move forward on the possible West German construction of a nuclear powerplant in the USSR and on other cooperation projects. In December 1974, France extended a long-term, low-interest line of credit worth some $2.8 billion to promote its exports to the USSR over the next few years. This credit line

Table 9

USSR: Machinery and Equipment Orders from Western Countries, by Type [1]

Million US $

	1972	1973	1974
Total	**1,575**	**2,285**	**4,070**
Chemical	250	440	1,100
Mining and construction	70	20	765
Petroleum and gas, refining and pipeline[2]	235	225	510
Motor vehicle manufacturing	270	620	335
Ships, marine, and port	100	95	280
Textiles	45	45	175
Electronics	55	30	145
Timber and wood processing	110	130	110
Metallurgical and metalworking	55	335	105
Consumer goods manufacturing	85	180	90
Food processing	10	25	75
Other	290	140	380

1. Excluding Finland, which maintains a clearing agreement with the USSR.
2. Excludes large-diameter steel pipe.

will help finance French participation in a $1 billion aluminum complex for which a preliminary agreement was signed in December. Following the French lead, the United Kingdom extended a $2.3 billion credit line to the USSR in February 1975 in an effort to win out in competition for Soviet orders.

38. The Soviet trade deficit with the United States dropped from nearly $1 billion in 1973 to one-fourth of a billion dollars in 1974. US exports to the USSR were almost one-half the 1973 level. Grain exports fell by two-thirds and machinery and equipment exports remained at the previous year's level because of a slippage in delivery schedules for motor vehicle manufacturing equipment. Soviet exports to the United States were almost 60% higher than in 1973, largely because of increased deliveries of platinum group metals, oil products, nickel, and titanium.

Plans and Prospects

39. The Soviet economic plan for 1975 projects a rebound in growth without new initiatives or changed priorities (see Table 10). Highlights will be:

- Industrial growth nearly matching last year's excellent pace.

- A sharp recovery – from -3.3% in 1974 to 10.8% in 1975 – in agricultural growth.

- A boost in consumer welfare, primarily in the form of larger amounts of high-quality foodstuffs, automobiles, and other consumer durables.

- Rapid growth in capital investment with continued emphasis on completion of projects already begun.

- Further expansion of trade with the West and another large hard currency surplus in 1974.

Table 10

USSR: Growth of GNP, by Sector of Origin

Percent

	Preliminary 1974[1]	1975 Plan[2]
GNP	3.2	7.0
Civilian industry	6.8	6.7
Construction	5.0	6.5
Agriculture	-3.3	10.8
Transportation and communicatons	6.6	7.0
Domestic trade	5.9	7.2
Services	3.7	4.4

1. Estimated, at factor costs.
2. Based on Soviet plans for individual sectors.

Industry

40. The Soviets gave fewer details than usual about the 1975 plan. The plans for industry seem ambitious since growth is expected nearly to match the high rate achieved last year. Output from new capacity – emphasizing equipment rather than construction – is probably expected to be a key factor in maintaining growth.

41. The 1975 plans for the fuels and power branch were among the few revealed and probably suggest the tautness of the overall industrial plan. The goal for crude oil output – about 490 million tons – can be reached only if:

- production in old oil fields can be maintained, primarily by the use of US submersible pumps;

- output in West Siberia can be raised 30 million tons from the 116 million tons of 1974; and

- pipelines under construction can be completed to move Siberian oil to consuming centers in the European regions.

The goal for natural gas – more than 285 billion cubic meters – can be achieved only if pipeline construction schedules are speeded up and more compressor stations added to increase capacity of existing lines. The goal for electric power may not be achieved, because of the lag in installing new capacity.

Agriculture

42. Attainment of the 11% agricultural goal requires good weather during the growing and harvesting seasons. So far this year the weather has been favorable for winter grains, which usually supply one-third of total Soviet grain output. Because winterkill probably will be far less than usual, a record winter grain harvest is possible as of early March. Moreover, the past record shows that good winter crops are usually followed by bumper spring crops. If these conditions hold true, the Soviet grain harvest will exceed domestic and export requirements, estimated at 210 million tons. This would not preclude the importation of specific types of grain, such as high-quality milling wheat and corn, when prices are attractive. One large grain exporter who has close Soviet contacts believes that the USSR will "normally" buy 4-6 million tons of corn and "periodically" buy 1-3 million tons of wheat, barring serious crop shortfalls.

Consumer Welfare

43. The leadership's admission of its inability to fulfill promises to the consumer for 1975 has been widely interpreted in the West as a switch in the priorities of the original 1971-75 five-year plan. That plan, in unprecedented fashion, called for Group "B" industry (largely consumer goods) to grow at a higher rate than Group "A" industry (largely producer goods) for the period as a whole and for each year except 1972.[2] So far, however, Group B has grown faster than

2. Even so, by Soviet calculations the share of consumer goods in total industrial output by 1975 would have risen to only 26.9%, compared with 26.6% in 1970.

Group A only in 1971, and the revised 1975 plan schedules a growth rate of 6% for Group B and 7% for Group A. The crucial question is whether this change represents a deliberate policy to downgrade the consumer or whether it is the result of events beyond the control of the leadership.

44. First, when discussing resource allocation as it affects economic growth, the traditional A versus B argument draws an artificial and misleading line. Group B, while including mostly products of final consumer demand, is not the only sector that serves the consumer. Group A as the sector producing machinery and other investment goods and industrial materials ultimately determines how many consumer goods can be produced. Thus the key question is really what kinds of heavy industry are being emphasized – e.g., for the output of weapons or agricultural chemicals – rather than if heavy is being favored over light.

45. The weight of available evidence seems to support the thesis that the consumer is still high on the list of priorities.

- A larger supply of high-quality foods was an important plank in the consumer program. We find no evidence of declining support for the agricultural sector. Total agricultural investment will increase by 9.2% in 1975 and will constitute a record percentage, 27.4%, of total investment. Industrial deliveries to the farms are scheduled to continue to increase at a fast pace.

- Machinery branches that supply equipment for the agricultural sector and for light and food industries were among the fastest growers in 1974 and should continue to expand briskly in 1975.

- The leadership continues to stress the importance of the production of consumer goods by heavy industrial branches.

46. In December, Gosplan Chairman Baybakov rightly attributed the shortfall in consumer goals largely to "harvest shortages" of 1972 and 1974 and "the incomplete fulfillment of tasks related to the commissioning of capacities." The recognition that the flow of agricultural raw materials to Group B enterprises will fall is reason enough for reversing the rates planned for A and B in 1975 as was done in 1973 following the poor 1972 harvest. Lags in construction, while contributing to the problems of the consumer industry, hardly signify a policy change; the problem of completing investment projects pervades the Soviet economy.

Capital Investment

47. Total new fixed investment is planned to increase by 7.3% in 1975, compared with 7.2% last year. As in 1974, 70% of all centralized investment is to be concentrated in projects nearing completion, with major new capacity planned for industries producing fuels and power, ferrous metals, and mineral fertilizer.

Foreign Trade

48. In 1975, the USSR plans to expand trade with the West in order to procure needed capital equipment and technology. Moscow will probably enjoy another sizable hard currency surplus, perhaps on the order of the $1 billion probably earned in 1974, although the terms of trade may worsen slightly for the USSR. Hard currency exports should again rise substantially because of higher volumes of energy exports, which will more than offset any decline in exports of other raw materials. If prices remain near $10 per barrel, oil exports alone may earn $3.7 billion in 1975. Increased deliveries of natural gas, along with other raw materials exports, could increase total Soviet hard currency earnings by some $2 billion to about $9 billion in 1975. Gold sales are an additional large source of potential foreign exchange earnings. If the USSR markets all of its current gold production in Western countries, it would earn -- at $175 per troy ounce -- more than $1 billion in 1975. The uncertainties surrounding Soviet agriculture could upset Soviet foreign trade plans if the USSR had to import large quantities of grain, sugar, or other agricultural products. With its new financial cushion, however, the Kremlin can more easily adjust to these contingencies.

49. The favorable hard currency position will strengthen Soviet bargaining power in the international arena over the next few years. Moscow can now (a) afford to pay cash as it agreed to do recently for $800 million worth of West German equipment for the Kursk steel complex and for International Harvester crawler tractors worth $100 million; (b) resist high interest rates and bargain hard on other commercial terms; and (c) consider postponing exports of some commodities such as diamonds that probably will bring higher prices in the future.

50. The decision of the USSR not to implement the 1972 US-Soviet trade agreement will have little impact in 1975 on trade with and technology transfer from the United States. In the long term, US-Soviet economic relations will be affected by the state of political relations. The USSR can find most of what it wants, including high-technology products, in Western Europe and Japan, but the United States remains the most attractive source for many goods, particularly for advanced oil field, electronics, and computer equipment.

Meeting the 1971-75 Plan

51. Few major goals for 1971-75 will be met (see Table 11). Moscow has published only scanty details of the revised 1975 goals; the Soviets expect to meet or exceed the original goals only for coal production, mineral fertilizer output, and agricultural investment.

Table 11

USSR: Original and Scaled-Down Plans for 1975

	Original Five-Year Plan	New 1975 Plan
National income (percent over 1970)	39	32
Industrial production (percent over 1970)	47	42
Electric power (billion kilowatt hours)	1,065	1,035
Oil (million tons)	505	489
Natural gas (billion cubic meters)	320	More than 285
Coal (million tons)	695	700
Crude steel (million tons)	146	142
Mineral fertilizer (million tons)	90	90
Cement (million tons)	125	122
Textiles (billion square meters)	11	10
Machine building (billion rubles)	145.7	139
Agricultural production (percent over 1970)	23	20.1
Capital investment, 1971-75		
Total economy (billion rubles)	501	498
Agriculture (billion rubles)	129	130
Housing (million square meters)	580	543
Average monthly wage (rubles)		
Workers and employees	149	144
Kolkhoz workers	98	More than 96
Per capita real income (percent over 1970)	31	24
Labor productivity (percent over 1970)		
Industry	39	33
Agriculture	37-40	22

52. Within the industrial sector, conditions at the end of 1974 furnish some idea of prospects for five-year plan fulfillment (see Table 12). Even though many items are within striking distance of the plan, some of the biggest laggards are items essential for future growth. These include many kinds of machinery such as oil and chemical equipment.

Table 12

USSR: Five-year Industrial Plan Fulfillment by the End of 1974

Sector	Ahead of Plan (By more than 2.5%)	Even with Plan (Within 2.5%)	Behind Plan (By more than 2.5%)
Fuels and power	Coal (2.8%)	Electric power (0.3%) Oil (-1.1%)	Natural gas (-4.0%)
Metals		Pig iron (-0.8%) Crude steel (-0.1%) Steel pipe (-1.6%) Finished rolled steel (-0.9%)	
Chemicals		Mineral fertilizer (0.6%) Plastics and synthetic resins (-1.0%) Chemical fibers (-0.5%) Soda ash (-1.4%) Tires (-0.1%)	Caustic soda (-4.4%)
Machinery	Computers (27.6%) Bulldozers (10.8%)	Metalcutting machine tools (-0.4%) Buses (-1.5%) Tractors (-0.6%) Agricultural machinery (1.3%) Television sets (2.0%) Watches and clocks (-0.3%)	Turbines (-16.2%) Generators (-12.4%) Chemical equipment (-23.0%) Oil equipment (-19.4%) Forge-press machines (-3.3%) Instruments and spare parts (-25.3%) Motor vehicles (-3.5%) Passenger cars (-3.7%) Trucks (-3.4%) Grain combines (-12.1%) Excavators (-3.9%) Light industry equipment (-13.8%) Food industry equipment (-6.4%) Radios (-8.9%) Refrigerators (-6.0%)
Forest products and paper		Paper (-0.1%) Furniture (-0.6%)	Cardboard (-11.3%)
Construction materials		Cement (0.4%) Slate (1.9%)	Soft roofing (-3.2%)
Light industry	Cotton fabric (10.2%) Silk fabric (2.6%)		Textiles (-3.7%) Linen fabric (-2.6%) Wool fabric (-23.8%) Knitwear (-10.8%) Sewn goods (-5.2%) Leather footwear (-10.3%)

53. Aside from poor harvests and capital construction problems, overly ambitious productivity goals contributed heavily to underfulfillment of the plan. The gains in output planned for 1971-75 depended much more on growth in productivity than on growth in capital and labor. The attainment of such productivity growth almost certainty required the adoption of bold new strategies for the introduction of new technology and for raising the efficiency of investment in industry and agriculture. No such strategies were forthcoming in 1974. A scheme to reorganize industry by combining some production and R&D units under unified management – production associations – is to be completed by 1975, but progress is slow and opposition to the reform is wide-ranging.