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ORR'S RESEARCH EFFORT ON THE USSR AND
COOPERATION BETWEEN ORR AND EMBASSY MOSCOW PEOPLE

I. Introduction.

Mr. Ambassador, I would like to describe the direction of our economic and military-economic research on the Soviet Union and to give some ideas on how the staffs of ORR and Embassy Moscow can expand their cooperation even further.

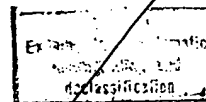
A. The USSR continues to be the main target of our economic intelligence.

Of the nearly 300 professional researchers in ORR, 37 percent work on the USSR, notwithstanding the recent expansion of our research on Vietnam and on Africa, Southern Asia, and Indonesia. Our effort on Communist China is growing and would be expanding even more rapidly were it not for the extremely small amount of data available from China.

B. Our worldwide coverage gives us a unique ability to interpret the Soviet economic and military presence in other parts of the world. You may recall that at the time of the Cuban missile crisis in the fall of 1962, our analysts contributed heavily to the identification of the movement of Soviet ships to Cuba, their cargo, and the deployment of the missiles.

* In 1958 the figure was 42 1/2 percent, according to a survey for the EIC

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- C. The subject of Sino-Soviet economic relations illustrates the importance of having within ORR analysts experienced in a wide range of geographic areas and problems. I might mention our deep involvement in the specific issues of the extent to which Chicom nuclear and space developments depend on XMI outside support from the USSR, Japan, and other industrialized countries.

II. The Direction of Our Research on the USSR.

We continue to have primary responsibility within the intelligence community for research in depth on the Soviet economy. This research includes:

- a. both aggregative research and research on specific industries or even specific production plants;
- b. both economic and military-economic research; the Secretary of Defense relies to a surprising degree on the Agency and ORR for judgments on weapons production, costing, and deployment;
- c. both long-term research (the scholarly monograph) and short-term policy-oriented research; there has been over the past few years a decided swing in emphasis to the policy-oriented memorandum; we have reached a new phase in the development of the Office; we are fortunate in having now a fairly large group of senior analysts who can be assigned short-term policy support problems and who can make a quick but authoritative assessment of a current issue because of their background experience.

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III. Specific Areas of Research on the USSR.

I would like to give you a general idea of what areas we are currently emphasizing in our research on the USSR, including some idea of the timing of major publications expected from ORR.

A. Over-all assessment of allocation of resources.

1. Another in our series of general assessments of the economy Soviet Economic Problems and Prospects in Mid-1966 should come out in about a month. Our cautious conclusion: that now and for the near future, the forces that brought Soviet economic growth down from 6 1/2 percent in the 1950's to 4 1/2 percent in the early 1960's will persist. We are especially watchful of how Brezhnev & Kosygin are going to honor the promises made to:

- a. Agriculture (great new investment)
- b. Industry (modernization and efficiency)
- c. Domestic Military (growing strength)
- d. Foreign Military (support brother countries)
- e. Consumer (milk & honey & autos).

This kind of general assessment is made annually and forms the basis for our support to the Office of National Estimates.

(The next Soviet economic NIE probably will be written in Second Quarter, 1967.)

2. We have continuing interest in the impact of Soviet military-space programs on the Soviet economy. From time-to-time we also serve as consultants to the Arms Control and Disarmament Agency by furnishing them material on Soviet military programs

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and by reviewing contract research performed for ACDA. As part of our concern with military-space programs our nuts and bolts research people examine the military drain in particular areas such as highly-skilled manpower and the most technologically advanced machinery sectors. Then we (our long-haired research people) try to estimate the burden of alternative military-space programs in terms of its impact on future economic growth and on the share of the national pie left over for consumption and investment requirements. These judgments provide part of the ORR input to the construction of national estimates on Soviet military policy.

B. Work on the Soviet "national accounts"

1. We have over last several years made step-by-step advances in Soviet national accounts field. Our accounts are rudimentary up to this point but we expect over next several years to make important advances.
 - a. In providing more detail on the production sectors of the economy: a finer breakdown in industry; a more detailed and accurate pricing in agriculture; a more thorough understanding of the "private" portions of the economy (private plots, privately built housing, and petty trade & services).
 - b. In analyzing the "end uses" of GNP in finer detail, identifying more closely the flow of final product.
In
 - c. /Updating and refining comparisons between the US and Soviet economies. In the spring of 1967, we expect

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to publish an unclassified report, US and USSR:

Comparison of Sizes and Uses of Gross National Product,
ix
1955-65.

2. We expect to get more involved in "input-output" analysis. The Soviets now are starting to publish input-output tables which in rows and columns give the sales of each sector of the economy to every other sector and the purchases of each sector from every other sector.
3. Possibility over the near future of getting this aggregative data in the Agency computer system. Already we have a fairly elaborate Soviet industrial production index that is on a computer.

C. Prime attention to Soviet agriculture.

1. Continued attempts to
 - a. Assess acreage and production more accurately,
 - b. Examine inputs carefully (land, labor, machinery, fertilizer, etc.),
 - c. Weigh the chances of increased productivity,
 - d. Judge the ability of Soviet agricultural institutions to absorb the great new investments/^{promised} by Brezhnev (\$78 billion in the 5 years, 1966-70).
2. Right now we are preparing a major report on The Soviet Chemical Fertilizer Industry. Our analysts are comparing the current status of construction of individual fertilizer plants with plans for 1970; their general conclusion is that a vigorous effort to meet the plan is underway. However, we

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are taking note of straws in the wind that suggest investment in support of agriculture is being trimmed. /

The system of distribution of fertilizer is also treated in this report, which should come out in the first quarter of 1967.

3. Incidentally, I would recommend for your reading the paper done by one of our senior people, on productivity in Soviet agriculture. This was one of several papers that our ORR people furnished for the recent Joint Economic Committee compendium, "New Directions in the Soviet Economy".

D. Study of the problem of the modernization of Soviet industry.

1. We will continue to follow the attempts of the Soviets, led in this case by Kosygin, to modernize Soviet industry and make it more efficient. This topic is one of the major issues considered in our forthcoming general assessment of the Soviet economy, previously mentioned. We find it difficult to believe that the Soviets can in the near future remove long-standing barriers to improvement in quality of products, shifts in product mix, and allocation of investment toward the more efficient firms. All these things the "market" in the US handles with unself-conscious aplomb. Perhaps Soviet economists are beginning to realize the virtues of the market; we doubt that this realization is going to be turned into gains in efficiency or modernization in the near future.

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paper in the JEC compendium, The Soviet Economic System in Transition, has a thought-provoking but pessimistic discussion of the prospects for the success of the reforms.]

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2. Special parts to this problem:
 - a. The development of the auto industry.
 - b. Demand for imports from the West of advanced machinery and technology and potential for exports to West.
 - c. The whole area of US trade controls.
 - d. Use of computers in the Soviet economy; here we are on the verge of publishing an unclassified paper, Use of Mathematical Methods and Computers in Soviet Management. This report demonstrates a tremendous lag in Soviet application of computers in the civilian economy.
 - e. The Soviet program for automatic control of basic industrial processes. _____ is preparing a paper designed to distinguish between fact and fiction in this important program (scheduled for Spring of 1967).
- E. Problems of military production, costing, deployment, communications networks -- material for this to be supplied by MRA.
- F. Economic relations with the Chinese Communists
 1. We hold that Sino-Soviet economic relations have been of enormous importance to the Chinese Communists but only of fringe importance to the Soviets.
 2. As to current economic relations, the Soviets in a recent statement denouncing the "great proletarian cultural revolution" said that trade is now the only form of economic contact between the two countries. This is true. The volume of trade continues to dwindle:

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<u>Year</u>	<u>Sov Exports to China</u>	<u>Sov Imports from China</u>	<u>Total Trade</u>
1959	\$955 mil	\$1,100 mil	\$2,055 mil
1965	190 mil	225 mil	415 mil

Trade in 1966 is likely to prove lower than in 1965.

3. The Soviet Union continues to send spare parts, machinery, ferrous metals, and other manufactures to China. China exports wool and silk textiles, non-ferrous ores, and specialty foods to the USSR.
4. Our research on Sino-Soviet economic relations is carried on by _____ At present, the annual EIE Economic Intelligence Committee (EIC) review of Chinese trade is being readied for publication, and basic information on Sino-Soviet trade will be included. In addition, Sino-Soviet economic relations will be part of a report, Impact of Foreign Trade on Communist China's Economy, scheduled for publication in April of next year.
- G. Economic relations with underdeveloped countries. We have been preparing studies on Soviet relations with such underdeveloped countries as Egypt, India, and Indonesia. Just published is Soviet Military Aid to India, a report that we feel will greatly assist our policy officials in planning US relations with the Sub-continent.

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...obstacles still hold back Soviet economic practice. If we are right, the problems of quality, assortment, the proper penalizing of the inefficient, etc. may be longer-lived than might be suspected. These issues have a bearing on whether the Soviets can as a practical matter aspire to a regaining of past high rates of growth. We don't think so.

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