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No Foreign Dissem

*Soviet economic slowdown
and CIA make headlines.*

CIA MEETS THE PRESS

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Long before the growth race between the US and the USSR became news, a Soviet propaganda theme, and a presidential campaign issue, CIA had organized a large-scale research effort on the economy of the USSR. This effort was started about 1950 in the Office of Research and Reports, the predecessor of the Office of Economic Research. The research developed in the CIA as a result of the unavailability of reliable information from open sources. Prior to the death of Stalin, officially released Soviet economic statistics were fragmentary, ambiguous, and unusable for analysis or policy support. Academic research on Soviet economic growth was under way but, hampered by the lack of open data, it was many years from fruition.

CIA studied production in various sectors in great detail and constructed independent measures for agricultural production, industrial production, and gross national product (GNP). The effort was a great deal larger than private groups could undertake and it benefited by access to classified information unobtainable outside. The results were much timelier than academic efforts even after the USSR began releasing voluminous statistics in 1956. Soviet aggregative statistics, even though more prompt and more numerous than before, still suffered from biases and a non-comparability with statistics of Western countries.

Economic intelligence research acquired new importance in the mid-1950's when Khrushchev challenged the US to a growth race. This peaceful competition was to take the place of the cold war and would establish the superiority of one of the two economic systems—capitalism or socialism. During the late 1950's and early 1960's, Khrushchev inaugurated a succession of campaigns for catching up with US economic performance. The Soviets were "catching up with the US" in meat and milk production, in steel production, and in industrial production. These several campaigns were accompanied by a barrage of statistics purporting to show progress in various fields, faster growth on the part of USSR than the US, and a closing of the gap between the USSR and the US.

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Through 1960 Soviet economic growth was impressive while that of the US was a little sluggish. Aided by the grain production from the "new lands," Soviet statistical performance compared favorably with that of the US, and the achievements of Soviet science in space made the statistics appear even more impressive and plausible. CIA estimates showed the growth rate of Soviet GNP to be about twice that of the US. For industrial growth the ratio was even more unfavorable to the US: in 1956-1960, 8½ percent in the USSR against 2½ percent in the US. The most thorough and respected academic estimate, that of Professor Abram Bergson of Harvard, was very close to CIA estimates for the 1950's. Bergson calculated the average annual rate of growth of GNP from 1950 to 1958 was 6.8 percent. CIA's estimate was 6.5 percent.

Soviet Slowdown in the 1960's

By the end of 1962 the rapid growth of the USSR relative to that of the US was widely known. CIA estimates had been publicized by the Director of Central Intelligence (Allen W. Dulles) in open testimony before the Joint Economic Committee of Congress in November 1959. This testimony was reported in the press and was printed in its entirety in a Congressional document. Mr. Dulles made another public speech in December 1959 before the National Association of Manufacturers repeating the same message. This also was widely reported in the press. However, for the following two years, 1961 and 1962, CIA estimates indicated a slowdown in growth. These estimates had not yet been made public. Suddenly, in August of 1963, the Soviet government began negotiating with Canada for a massive purchase of wheat. It soon became known that the USSR had suffered a severe drought and crop failure and did not have sufficient grain reserves to feed its population. The USSR contracted with Canada and the US for the surprising total of 11 million tons of wheat for delivery in 1963 and 1964 to be paid for by sales of gold.

At the request of the Director of Central Intelligence (John A. McCone), ORR prepared an assessment of the Soviet economy. This was incorporated into a briefing given by the DCI to President Johnson and the National Security Council in December 1963. The highlights of the economic portion of the briefing were:

1. Growth of Soviet GNP in 1963 would be about 1½ percent.
2. Growth in 1962 had already slowed, so the average of the two years was only 2½ percent, drastically lower than the previous rates of 5 and 6 percent.

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3. Agriculture accounted for a large part of the slowdown in both 1962 and 1963 but not all of it. Industrial growth had also slowed noticeably since 1958.

4. In trying to raise meat production, Khrushchev had prodigally used up his surplus grain production of the preceding years, 1958-1961, and had much smaller grain reserves than CIA had previously estimated.

5. The slowdown in industry was in large part the result of competition of defense for scarce investment and R&D resources.

6. Gold production and stocks were significantly lower than current public estimates.

7. The Soviet campaign to obtain long term credits from Western Europe for the purchase of advanced Western equipment was a natural consequence of its dwindling gold stocks.

The President was very interested in this assessment of the Soviet economy and suggested that it be made available to the public. How this was to be done was apparently left up to the Director.

The Press Conference

The objectives in releasing the story were fairly straightforward. After years of hearing that the USSR was rapidly and inexorably catching up with the US, the American public would surely be glad to hear that this was no longer true, at least temporarily. Secondly, the reported developments supported the US policy of discouraging the extension of long-term credits to the USSR. Thirdly, the report could be declassified without affecting its substance. In addition to releasing the story, however, the Agency decided to permit reference to itself as the source. This was uncommon but not unprecedented. In *The New York Times* of 23 June 1960, page 36, an article by Harry Schwartz had reported on some estimates prepared by CIA for a Congressional committee. The headline had read: "CIA Forecasts Soviet Output Will Grow 80 percent in Next Decade." The object of allowing attribution to the Agency in 1964 was simply to get the story on page one, if possible, rather than on page forty-one.

In short, the Agency had a good story to tell and wanted to be sure it was heard.

The main points in the Director's briefing appeared on 29 December 1963 in an article by Charles Bartlett on an inside page in the *Washington Star*. This article featured the limited Soviet gold stock and production, and the need for import credits. This was the first time the CIA gold estimates had been made public. In the body of the article the CIA was named as the source of the information in

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the article. On 5 January 1964 a similar article appeared in *The New York Herald Tribune* by Tom Lambert, datelined Washington. He attributed his information to "intelligence analysts here."

These two articles caused no particular stir. However, on 8 January 1964 an article by Edwin L. Dale, Jr. appeared on the front page of *The New York Times* under the headline, "Sharp Slowdown in Soviet Growth Reported by CIA." The article reported the CIA analysis at length and also discussed CIA's responsibility for research on the Soviet economy. Dale had received no special favor or dispensation and his article said nothing essential that was not in the previous articles. But somehow it caused a furore. Front page, *The New York Times*, with attribution! The Washington press corps raised an immediate clamor for equal briefing.

In response to this demand the Agency scheduled its first press conference for the following day, at CIA headquarters. Twenty reporters attended. The conference was conducted by the Deputy Director for Intelligence, Ray Cline. A press release, entitled "Soviet Economic Problems Multiply," was passed out. But by this time Soviet economic problems were no longer news. The first question asked by a reporter was, "Why? Why this public apparition, this naked materialization of CIA?"

The DDI replied: "Well, we thought we had a good story, so"

Twenty eager faces radiated frank and open disbelief.

The press conference made headlines all around the world. However, the message of Soviet economic slowdown was subordinated to speculation about CIA's motives in seeking the publicity. The most frequently cited motives were (1) a supposed CIA-State Department conflict over European long-term credits for the USSR—CIA opposing, the State Department approving; and (2) an alleged attempt to rebuild CIA's public reputation after the Bay of Pigs episode. The CIA-State Department rivalry hypothesis was illustrated by the famous Herblock cartoon in *The Washington Post* which showed a black cloaked figure offering to peddle some "hot statistics" to a foreign service officer on the steps of the State Department building.

The Reaction

The CIA analysis and estimates met with a mixed reaction in the US press, among the academic specialists on the Soviet economy,

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and in foreign countries. In the US many commentators accepted the CIA position, but a substantial number reserved judgment pending further information, and a small number openly disagreed. On 9 January, the day after the first *Times* article by Dale, Harry Schwartz, who was the *Times*' Soviet economic expert, published the results of a telephone survey of academic experts. All five who were canvassed were surprised by the CIA's conclusions about rates of growth. One said, "It is impossible." Another said, "Fantastic." On the other hand, Professor Abram Bergson, whose own calculations of Soviet GNP growth up to 1958 were the most widely accepted of all estimates, said, "I am a little surprised but I can't rule it out." It was hard, as Schwartz pointed out, to understand how Soviet growth could plunge from 6 or 7 percent a year to 2½ percent. The explanation was primarily the decline in agricultural production for two successive years, a development not yet known to the academic specialists.¹

The British press was generally doubtful of the accuracy of the estimates of growth and of gold stocks. In particular, the London *Economist* thought that the proper estimate of the growth rate should be around 5 percent instead of 2½ percent. However, most British commentators agreed that Soviet growth had slowed noticeably. The British press unanimously interpreted the CIA action as an attempt to support the US policy of opposing the granting of long-term credits to the USSR, something the British Board of Trade was eager to do. The British, unlike some of the American press, knew that this was also US administration and State Department policy and not just CIA's policy.

¹ Schwartz's later analysis of the American reaction is interesting. The following quote is from his book, *The Soviet Economy Since Stalin*, Lippincott, 1965. pp. 33-34.

"The depth of this concern [with the rapid Soviet growth relative to that of the US] became strikingly clear in early 1964. The CIA—from which Mr. Dulles had retired—made public its calculations for 1962 and 1963, which showed that Soviet economic growth had slowed down dramatically, to less than 2.5 percent annually. It added that the gap separating American and Soviet production levels was once again widening so that Moscow's prospects for victory in the economic competition during the foreseeable future had dimmed substantially. A naive observer might have thought that a wave of joy would have swept the United States at this good news. The reality was the reverse, however, and numerous American voices were quickly raised to criticize the CIA and its new estimates. Having finally been convinced that there was such a thing as a Soviet economic threat, many Americans seemed reluctant to believe that even temporarily Moscow had received a setback and Washington was doing comparatively well."

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The CIA press release took the Russians very much by surprise, appearing as it did even before the official Soviet announcement on the economic results for 1963. When these appeared later in January, the usual percentage increase in national income was absent. All that was given was a figure of 5 percent growth in gross social product. Gross social product is a heavily double-counted statistic summing the outputs of all sectors of the economy without netting out the intermediate sales from one producing sector to another.

In several letters to US newspapers, Soviet writers denounced CIA on a variety of grounds but could find no answer to the 2½ percent GNP growth rate except to cite the announced 5 percent growth in gross social product. When the statistical handbook, *Narodnoye Khoziaistvo, SSSR v godu 1963*, was finally released in early 1965—several months late—it showed the growth of national income (Soviet definition) to be 3½ percent for 1963, and a 4.2 percent average for the two years, 1962 and 1963, compared to an average of 7½ percent for 1959-1961. National income (Soviet definition) excludes most services, which grow slowly, and hence systematically increases faster than national income or product by Western definition. In the light of that bias the Soviet announcement came closer to supporting the CIA estimates than the Soviet economists' (or the London *Economist's*) estimate of 5 percent.

The reaction of Eastern European countries was the most interesting of all. As reported in a *New York Herald Tribune* dispatch of 10 February 1964, satellite officials accepted the CIA estimates and were using them to oppose Soviet policies, such as economic integration through CEMA, and to support their own hopes for increased policy independence.

The Final Outcome

In January and February 1964, the Director and his deputy for intelligence visited the major capitals of Western Europe, briefing the NATO governments on the Soviet economic and military positions. A representative of ORR accompanied them to brief economic specialists in the governments on the methodology and data underlying the economic estimates. All except the British Board of Trade were persuaded that the CIA estimates were generally valid.

The validity of CIA's analysis became generally acknowledged in the US press after the official Soviet report on economic performance

in the first half of 1964. Harry Schwartz of *The New York Times*, a former skeptic, wrote a *Times* story in July 1964 with the following headlines: "Soviet Economy Seen Stumbling—Growth in Industrial Output During First Half of 1964 Falls Short of Hopes—Bright Spots are Few."

The US academic community was brought around by the appearance of carefully explained calculations of Soviet GNP by Dr. Stanley Cohn, of Research Analysis Corporation. Although his estimated growth rates were not identical with those of CIA, they were reasonably close, and his methods and procedures were essentially the same as the Agency's. Cohn's analyses appeared in successive volumes of studies on the Soviet economy published by the Joint Economic Committee. The latest revision of Cohn's estimates shows 4.5 percent growth in 1962 and 2.7 percent in 1963 for an average of 3.6 percent.

The CIA gold estimate, which rested on highly classified data, was accepted and published by the US Bureau of Mines in 1964. In due time it was also accepted by the Joint Intelligence Board in London and by the banking community in London.

An Endorsement from Siberia

The most unexpected support for CIA's economic estimates came from a prominent young Soviet economist, Dr. Abel Gezevish Aganbegyan, who is the head of the Laboratory of Economic-Mathematical Methods in Novosibirsk, and a corresponding member of the Soviet Academy of Sciences. He was one of a large number of economists who were urging radical economic reform on the Soviet leadership prior to 1965. In December 1964, he delivered a private lecture in Moscow, reportedly to the Central Committee, and again in June 1965 to the staff of a publishing house in Moscow. Notes taken by someone present at the latter lecture leaked to the press in England and Italy, and also were acquired by the American Embassy in Moscow. These notes may not be accurate in every particular, but their general authenticity has been substantiated.

Aganbegyan, according to the notes, vigorously criticized the operation and management of the Soviet economy. In addition, he criticized the statistics produced by the Central Statistical Administration and objected to the policy of secrecy regarding economic information. He alleged that Soviet economists are often forced to rely on American sources. He cited the report by the American CIA on the

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decline in Soviet economic growth. This report, he said, was accurate and the Central Statistical Agency had been unable to refute it.

The notes were disavowed by the Soviet press and by Aganbegyan. However, he is not the only Soviet economist to have expressed grave doubts of the State's economic statistics, either privately or in print.

Epilogue

CIA's first press conference was also its last. The Director was earnestly advised to get CIA out of the news and keep it out.

Two years later, in October 1965, after the poor Russian harvest of 1965, the CIA again prepared a press release on Soviet growth, repeating estimates for preceding years and estimating growth of GNP in 1965 at 3 percent. This time the State Department issued the release. It was described as "prepared by the Department of State in consultation with other interested agencies." The report of this release did not make the front page of *The New York Times*.

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