

27 APR 1956

MEMORANDUM FOR: Deputy Director/Intelligence

SUBJECT: Comment on RAND Staff Report "Studies of the Soviet Economy"

1. Before listing the points of detailed differences in estimates between RAND and ORR, the role of RAND in Soviet intelligence production should be made clear. RAND has chosen to serve as a pioneer in exploring new paths to Soviet research. Its primary aim has been to enlighten the academic and intelligence communities as to data potentialities and methodological approaches rather than one of undertaking exhaustive, definitive studies of the Soviet economy. The differences between RAND and ORR can be explained largely by the greater degree of refinement of analysis attained by ORR thanks to greater endowment in terms of manpower. In many instances ORR has been able to build on foundations prepared by RAND.

2. The RAND report in its discussion of division of GNP by end use indicates that investment comprised about 26 percent of GNP in 1948 rising to over 27 percent in 1954 (Figure 1, page 3). The ORR proportion is somewhat lower with an estimate of 23 percent in 1954. This difference is explained by the use of different methods of estimating total investment. ORR sums explicit outlays, while RAND derives investment as a residual between total government revenues and known government outlays of a non-investment nature. Many outlays with ambiguous designations are blanketed under investment by the RAND method.

3. A similar difference but more minor difference exists in regard to the proportion of GNP comprised by defense expenditures. RAND carries 15 percent (Figure 4, page 6) while ORR makes an estimate of under 13 percent. This difference is explained by the higher estimate ORR gives for consumption with a resulting lower proportion of GNP for defense. The higher consumption figure results from a different adjustment of the turnover tax.

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4. The report surmises that if the US and Soviet percentages of GNP devoted to defense were matched, the US by virtue of its economic size would support three times the defense effort of the USSR (page 5). This comparison assumes a ruble-dollar ratio by defense equal to that for GNP as a whole. As a result of an intensive analysis of ruble-dollar price ratios ORR concludes that the dollar value of the Soviet defense effort is nearly equal to that of the US.

5. Citing its ruble-dollar price study as the source, RAND concludes that the dollar value of the ruble in the purchase of capital goods was about twelve cents in terms of 1950 rubles and dollars (page 24). ORR would lower the purchasing power of the ruble in this use to about eight cents. We believe the ORR comparison to be more representative since it considered qualitative aspects of product comparability more carefully.

6. RAND indicates that GNP has grown at an average annual rate of 6 percent in the postwar years (page 2). No methodology is presented. The ORR estimate is a rate of 7.5 percent for the period 1951-55 and a higher rate for earlier years. The ORR rate is based on the aggregation of indexes for each of the four principal end uses of GNP.



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