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CIA HISTORICAL REVIEW PROGRAM
RELEASE AS SANITIZED

1998 22 May 1957

C-O-P-Y

The Honorable Harold E. Stassen
Special Assistant to the President
The White House

Dear Mr. Stassen:

The attached analysis was prepared on a rush basis at the request of Mr. William Tidwell of your staff.

I would like to emphasize that, in the absence of specific assumptions with respect to the details of the disarmament arrangements under consideration, we have had to establish somewhat arbitrary assumptions and parameters as the basis for our analysis. I believe, however, that the paper does present some useful general conclusions regarding the possible impact on the Soviet economy. I hope you will find this paper helpful for your current discussions here in Washington.

Sincerely,

/s/

Robert Amery, Jr.

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22 May 1957

Estimated Effect on the Soviet Economy of the
Level of Disarmament Implied by Recent Soviet Proposals

1. Any substantial cut in Soviet armed forces and procurement would contribute significantly to the productive capability of the Soviet civilian economy. The proposal to reduce military manpower to 1.5 million men would release 2.5 million from the armed forces presently estimated at about 4 million.
2. Although the Soviet economy is presently experiencing some economic difficulties due to a temporary shortage of raw material production capacity, the average annual rate of Soviet industrial growth probably will continue to exceed greatly that of the U.S. Nevertheless, the USSR probably would welcome developments which would permit the assignment of more resources to industrial investment, if assured that these developments would be welcomed particularly in view of the rising costs of industrial materials and declining increments to the Soviet labor force resulting from the extremely low wartime birth rates. The increments to the labor force resulting solely from increases in persons out of school of laboring age will be 4.5 million for the five years 1959-1963, compared with 7 million actually added to the labor force for 1951-1955.
3. Any substantial reduction in armed forces and associated procurement in early 1958 would help to alleviate these problems. It would help more in the long run than in the short run. Since the immediate economic problem is primarily a shortage of materials rather than labor, a reduction of procurement would release enough materials and fuels to relieve some of the strain in the civilian economy. The effect on supplies would be marginal with the exception of steel where the savings might be 0.5 to 1 million tons. While the overall supply of labor is currently adequate, it is scarce in the areas east of the Urals where a large development program is underway. Demobilized personnel could be more easily channeled into this program than civilians from other areas. By 1959 the productive contribution of the demobilized personnel would assume greater importance as the raw materials shortages are overcome and the demobilized servicemen are integrated into the civilian economy. The 2.5 million men released would equal about five percent of non-agricultural employment and would be the equivalent of the natural increase in the total labor force expected in the three years 1961 to 1963.
4. Over a somewhat longer period (1960 and later) the labor, materials and industrial capacity released by any demobilization could be integrated fully into civilian production. The impact can then be approximated by the ruble value of these released resources. The 2.5 million persons released from the armed forces could be expected to add about 20 billion rubles to the annual value of production.
5. In order to assess the extent of possible reductions in the

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procurement sector of Soviet military expenditures,* these expenditures were classified in five broad groups described in the attached table. It has been calculated for current National Intelligence Estimates that the expenditures involved in procurement of these activities amounted to 114 billion 1955 rubles in 1956 and in the absence of disarmament would grow to 154 billion in 1960. In order to determine how the 1960 expenditures for these items might be affected by a force level cut from about 4.0 million to 1.5 million men and possible changes in specific programs, two arbitrary disarmament examples were constructed to illustrate the range and orders of magnitude that might be involved.

6. In Case I, which might be described as a relatively small cut, the procurement levels of the various groups of items were adjusted according to the assumptions in the table. The table also presents the adjustments assumed for Case II which might be described as a relatively large cut. The effects of these two sets of assumptions on the 1960 expenditures for these groups together with the values for 1956 and 1960 which were prepared for current National Intelligence Estimates are presented in the table. The large cut would reduce the projected 1960 expenditures for these items by 64 billion rubles or 42 percent, while the small cut would reduce the 1960 expenditures by almost 17 billion rubles or 11 percent.

7. The resources released by reduced procurement and demobilization of personnel constitute the gain to the civilian productive economy. The subsistence of the released service personnel is not included since it will simply become consumption for civilians. The gains in billions of 1955 rubles to the economy in 1960 under the two procurement assumptions are:

	<u>Case I</u>	<u>Case II</u>
Labor	20	20
Material	<u>17</u>	<u>64</u>
Total	37	84

8. These amounts could have a significant impact on non-military production and can be compared with a projected total investment of 390 billion rubles for 1960. Not all but most of the above amounts could be allocated to investment. The allocation to investment of a major portion of the more drastic cut (Case II) could perhaps, over a five-year period, result in a level of industrial output five to ten percent higher than that attainable without such a cut.

* Includes all expenditures for military materiel, only part of which is included in the announced budget account, "Defense Expenditures."

ORR/CIA
22 May 1957

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Estimated Soviet Military Procurement Expenditures for 1956 and 1960,
and for Assumed 1960 Disarmament Alternatives a/

Billion 1955 Rubles

Procurement Expenditure Groups	Assumptions		As Estimated for		Assumed	
	Case I	Case II	Current NIE's 1956	1960	1960 Disarmament Case I	1960 Disarmament Case II
<p>Items in heavy supply in USSR with relatively low rates of obsolescence. b/</p>	Armoured fighting vehicles, other ground force weapons, ammunition and naval surface vessels.	Cut to 10 percent of 1956 levels.	18	17	9	6
<p>Items whose procurement is closely related to manpower levels.</p>	Automotive equipment, transportation services, and general equipment, materials and supplies.	Cut to 37.5 percent of 1956 levels.	11	12	4	4
<p>Items with high obsolescence rates and relatively low manpower requirements for operation.</p>	Aircraft and missiles, radar and air defense communications and submarines.	Projected at same levels as were estimated for 1960.	50	81	81	50
<p>Items partly a function of force level and partly a function of equipment levels.</p>	Petroleum, communication and construction activities.	Cut to 90 percent of projected 1960 levels; based on a weighted average of cuts in above groups.	10	12	11	7
<p>Expenditures involved in research and development activities for military purposes and nuclear energy activities.</p>		Projected at same levels as were estimated for 1960.	25	32	32	27
		Projected at 1960 levels, except research and development expenditures reduced by 25 percent for reduction in weapon testing and product development.				
			Total	154	137	90

a. Includes all expenditures for military materiel, only part of which is included in the announced budget account, "Defense Expenditures."
b. These items would be available not only to support lower manpower levels for longer periods, but also to equip reserve forces at call-up.
c. Because of the growing complexity of items in this group, 1956 expenditures will procure in 1960 a smaller number of weapons than in 1956.