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MEMORANDUM FOR THE RECORD

SUBJECT: Economic Implications of a Bad
Grain Harvest in the USSR in
1976

The attached report was prepared for the NIO/Economics
for incorporation in a D/NIO submission to the NSC.

Office of Economic Research

Attachment:
As stated

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Economic Implications of a Bad Grain Harvest
in the USSR in 1976

Another poor grain harvest next year would have profound short-run effects on the Soviet economy. The degree of impact would depend on the extent of the shortfall from the goal of about 210 million metric tons. If the crop is no greater than in 1975, GNP growth would advance by perhaps 1-3%, far short of the 5-1/2% rate of increase now planned. Industrial growth would again be hampered by shortages of agricultural raw materials. With grain reserves now near zero, another harvest failure would force further large reductions in livestock numbers and additional massive imports of grain from hard currency areas, exacerbating next year's currently anticipated deficit of \$4-\$5 billion. In turn, this might force the USSR to forego a wide range of machinery and equipment imports to avoid a untenable build up of foreign debt. The Soviet consumer would face a reduction in meat supplies of perhaps one-third, putting him back to the levels of the mid-1960s, and widespread consumer discontent could become evident.

As the meat queues lengthened, the leadership would have to decide whether formal rationing should be substituted for the hit-and-miss allocations resulting from the queues. Alternatively, they could raise meat prices to avoid the

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administrative costs of rationing or the unfairness of a first-come first-serve system of distributing the available supply of meat. The regime, however, has repeatedly indicated it would avoid boosting food prices.

Over the longer-term, overall economic growth rates would be impaired and make even the modest rates of growth planned for 1976-80 difficult to achieve. Undoubtedly, economic policies including the high priority for investment in agriculture would be challenged. The standard of living would stagnate and the growth in incomes would be held back to restrict inflationary pressures.

For the US, another poor Soviet harvest would mean additional grain sales over and above the six million tons the USSR is committed to buy from us annually during 1976-81. This might be off-set by reduction in sales of other goods if the USSR is not able to increase its own hard currency exports. It would provide added leverage to US efforts to conclude deals for Soviet oil and other raw materials.

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