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INTELLIGENCE MEMORANDUM

SOVIET ECONOMIC POLICY IN 1954

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FOREWORD

Although this memorandum on Soviet economic policy is focused on 1954, the continuous nature of economic policy formulation and the time-consuming process involved in the implementation of a complete economic program render highly artificial any uniform time period such as a calendar year. The present review attempts to reflect the real continuity of the process by relating the events of the year to policies introduced before 1954 and by including, insofar as possible, the major economic policy developments in the early months of 1955. No attempt has been made, however, to treat systematically the policy changes in the current year.

- iii -

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CONTENTS

	<u>Page</u>
Summary . . . . .	1
I. Introduction . . . . .	3
II. Agriculture . . . . .	4
III. Industry . . . . .	8
IV. Transport, Trade, and Housing . . . . .	12

Table

Planned Total Profits, Planned Deductions from Profits, and Planned Retained Profits in Soviet Industry, 1951-54 . . . .	10
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- v -

~~S-E-C-R-E-T~~

~~SECRET~~SOVIET ECONOMIC POLICY IN 1954\*Summary

The achievements of the Soviet economy by the end of 1953, with only 2 years remaining in the Fifth Five Year Plan (1951-55), were not sufficiently impressive to guarantee the successful fulfillment of the 1955 Plan goals. The Plan, belatedly adopted by the 19th Party Congress in October 1952, apparently had suffered from the lack of an effective, detailed program at the outset of the 5-year period. Furthermore, the various economic adjustments attendant on the revised economic policy introduced by the new leadership in 1953 had had a depressing effect on the performance of the economy. As a consequence, there was no margin to allow for any further interruptions in the functioning of the economy. Thus at the beginning of 1954 the prospect for achievement of the Fifth Five Year Plan goals hinged largely on the success of the new economic policy -- a policy which, as yet, had not been in operation long enough to prove its effectiveness in meeting the two basic problems which had become increasingly acute during the course of the Fifth Five Year Plan: diminishing gains in labor productivity and slow growth in agricultural production.

In 1954 the Soviet leadership tried to strengthen those aspects of the 1953 policy which bore most directly on these two basic problems. Their solution was complicated by the fact that both problems were products of the most fundamental of all Soviet economic objectives -- the forced development of the industrial sector of the economy. The principal aim of Soviet policy in 1954 was to boost labor productivity and agricultural production with a minimum of interruption to long-term industrial development. The task of increasing the productivity of labor was essentially one of increasing the availability of consumer goods, thereby making more meaningful the system of incentive wages. The problem of lagging agricultural production was more complex, involving deficiencies in the institutional organization of production and also unique problems of investment as well as the problem of agricultural income incentives.

\* The estimates and conclusions contained in this memorandum represent the best judgment of ORR as of 1 May 1955.

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Implementation in 1954 of the consumer goods aspect of the revised policy was designed to provide an immediate increase in manufactured consumer goods by depriving the defense establishment of its customary share of the increase in the growing product of industry. Thus much of the consumer goods program involved a shift in final demand items from military to civilian use rather than a shift from investment goods to consumption goods, thereby lessening considerably the effect of the program on the traditionally high ratio of investment to consumption. In addition to the revision of production priorities in favor of manufactured consumer goods, the pattern of state investment was shifted slightly in favor of light industry and housing at the expense of heavy industry. The investment plan for the trade sector of the economy was increased from the usual 1 percent of total investment to 2 percent, reflecting the planned increase in consumer goods as well as a continuation of the policy of drawing trade into state and cooperative markets.

Implementation in 1954 of the agricultural aspect of the revised policy took several forms. The most dramatic was the diversion of a large portion of new agricultural machinery and tractor production to previously uncultivated lands. Although of marginal character because of uncertain climatic conditions, these lands were calculated to give an immediate return of grain with little sacrifice to production on the old lands, which in recent years had shown little response to new applications of machinery and tractors. This action was planned to play a significant part in the formulation in 1955 of an expanded 5-year livestock program.

Less dramatic were the steps taken in 1954 to continue and to augment the agricultural policies introduced in 1953. The incentive features of the 1953 version of the agricultural tax were retained, and the incentive of higher state procurement prices for agricultural products was extended to include grain as well as livestock and vegetables. These measures permitted a higher level of investment by kolkhozes. In addition, state investment in agriculture was considerably expanded. State and kolkhoz investment together was nearly 40 percent greater than in 1953.

In implementing the new agricultural policy, greater freedom was given the kolkhoz in planning the utilization of manpower and in planning the crop pattern. In an effort to improve the organization of

- 2 -

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machine work, large numbers of workers were transferred from seasonal to permanent work in the Machine Tractor Stations. The method of determining obligatory workday minimums for labor on kolkhozes was revised. It was hoped that these measures would correct some of the more serious defects in the collective organization of agricultural production.

The effects of the 1954 policy on the economy were varied. Consumer goods production, excluding food-processing industries, is estimated to have increased over the 1953 level by 11 percent, a performance nearly equal to that of the producer goods industries. Food products remained scarce, however, and agricultural production, set back by adverse weather conditions, was not so great as planned, in spite of the success of the new-lands program. The industrial wage fund was again overexpended. These and other cost pressures stemming from the new policy created a large gap between actual and planned profits, as in 1953. As a result, fewer wholesale price reductions were made in either year. In 1954, in order to combat further the growing inflationary pressures, a smaller and more selective retail price reduction was granted. No retail price reduction has been granted thus far in 1955, and the state loan from the population has been doubled to absorb some of the excess purchasing power. In spite of the mixed effects of the new policy, however, it appeared at year's end that the consumer was slightly better off, that the Five Year Plan goals were more certain to be fulfilled, and that the defense effort could be restored to its original level.

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I. Introduction.

The economic course of action, or program, set forth in 1953 after the death of Stalin was pursued in a reasonably faithful and generally successful fashion in 1954, the first full year of the new economic policy. Throughout the year it became necessary from time to time to make certain revisions in the policy to keep the economy bearing true to course. These policy revisions in 1954, touching upon nearly every facet of economic activity in the USSR and involving a number of types of economic control mechanisms (including prices, taxation, wages,

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profits, and direct allocation of commodities), did not add up to a significant alteration of the basic economic policy formulated in 1953. They did indicate, however, the nature and extent of the stresses imposed on the economic system by the tasks of the new program and the degree to which the administration was willing to make the adjustments necessary to carry out successfully its program commitments.

Certain of the actions taken in 1954 apparently were designed to realize even greater agricultural and consumer goods goals than originally set forth in 1953, but it was also evident, especially during the last few months of 1954 and in January-February 1955, that neither the basic industrial development of the economy nor the defense establishment was to be allowed to suffer noticeably as a result. These actions, although halting the rapid rate of increase in consumer goods activity attained in 1954, were designed to maintain this sector at its newly created level and at the same time to provide the defense establishment with a substantial increase in expenditure which would more than restore the reduction permitted in 1954 in order to support the initial costs of the new program.

Such revisions as were made in Soviet economic policy in 1954 in favor of the consumer or of agriculture were aimed at fulfilling the limited objectives of the 1953 policy. They were not intended to challenge the classic Soviet emphasis on heavy industry. In fact, the expansion in consumer goods and agriculture was calculated, to a considerable extent, to remove certain barriers to further expansion of the industrial base of the economy. Diminishing gains in labor productivity and chronic shortages in the agricultural sector had become increasingly serious during the first years of the Fifth Five Year Plan (1951-55). It was to these problems in particular that many of the policy revisions of 1954 were directed.

## II. Agriculture.

The original Fifth Five Year Plan, adopted by the 19th Party Congress in October 1952, envisioned substantial increases in the level of agricultural production by 1955. The goal for grain production in 1955, for example, was set at one and one-half times the 1950 level. The goals formulated in 1952 were to be achieved by means of an agricultural policy designed to increase the yields of grain. Malenkov stated at the Party Congress that since the prewar level of sown acreage had been reached, the correct method of achieving an increase in output was to increase yields comprehensively. Before the

- 4 -

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death of Stalin, however, there was no discernible effort to translate these ambitious goals into an effective program of agricultural development. Without such a program the great agricultural expectations of the Fifth Five Year Plan were unrealistic.

It was not until August 1953 that a realistic effort was made to formulate and carry out an agricultural policy designed to produce significant increases in the level of agricultural production. Malenkov then stated, at the meeting of the Supreme Soviet, that the serious failures in agriculture must be overcome by a program of increasing the economic incentive of kolkhozes and kolkhoz members. The program adopted a month later by a plenum of the Central Committee of the Communist Party provided measures for the improvement of livestock, potato, and vegetable production. Procurement prices paid by the state for the delivery of compulsory quotas of these products were increased. For some of the products, the increases were the first granted in 20 years. In addition, certain compulsory delivery quotas were reduced. The agricultural tax levied on the rural population also was revised in September 1953. The former tax schedule, which varied according to the value of the crop, was replaced by a uniform tax rate levied on land area regardless of the type of crop raised. The separate tax on individual livestock holdings was abolished in order to encourage private livestock breeding by members of the kolkhoz. It was hoped that these procurement price changes and tax changes would produce a redirection of effort toward those food products most urgently needed and would provide, at the same time, additional income to the kolkhozes and kolkhoz members as further production incentives. That the production of processed foods increased by little more than half the amount scheduled for 1954 was the result of adverse weather conditions rather than of inappropriate changes in agricultural policy.

The agricultural policy developed in August and September 1953 offered few details as to how the Fifth Five Year Plan goal for grain production, as set forth in 1952, was to be realized. It was mentioned only that grain production should be developed through further increasing yields. Between September 1953 and March 1954, however, Soviet leaders apparently reassessed the efficacy of a policy devoted solely to the intensification of the production effort on existing cultivated lands. It was announced by Khrushchev at the February-March 1954 plenum of the Central Committee that the major effort to

- 5 -

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increase grain production in 1954 and 1955 was to be focused on the extension of grain cultivation to new lands, primarily in Kazakhstan but also in Altay Kray and West Siberia.

The significance of the new policy was not in the decision to increase grain production, for this had been made in the formulation of the original Plan. The significance was in the decision to augment the program of intensive development of agriculture by a concerted effort to extend the margin of cultivation to the new lands. The comparatively low return on additional investment in equipment on the old lands, especially in heavy tractors, was endangering the achievement of planned production goals. The new-lands program had the short-run attraction of an immediate production return and the longer run attraction of permitting some lands traditionally devoted to food grain production to be converted to the production of feed grains in support of an expanded livestock program. This, in turn, eventually would reduce the need for livestock raising by individuals, which of necessity had been encouraged by the 1953 changes in agricultural tax and procurement price policy. Furthermore, the extension of cultivation into the new lands, with a greater ratio of state farms to kolkhozes than in the old lands, constituted another small step toward the eventual elimination of private plots and kolkhozes and assured the state of a larger marketed share of new production than would have been obtained from a comparable increase in production on the old lands.

The new-lands policy set forth in March 1954 was rapidly implemented and with such initial success that the Plan goal for 1955 of 13 million hectares of new lands was enlarged, calling for 28 to 30 million hectares by 1956. In addition, the ratio of state farms to kolkhozes was to be still greater on the additional new lands. Although the new-lands program was proceeding apace, certain shortcomings were discussed at the June 1954 plenum of the Central Committee. Construction of the necessary buildings, especially housing, was stressed as the greatest need. Throughout the remainder of 1954, considerable effort was made to insure an increased supply of building materials to the new areas.

The June 1954 plenum was concerned not only with the new-lands program. Inadequacies of the entire agricultural program also were discussed at length. Several policy decisions were continued from 1953 or newly initiated in 1954 to deal with these problems. The short supply of foodstuffs was recognized not only by the continuation of the higher procurement prices and lower tax provisions

- 6 -

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established in 1953 but also by the introduction in August 1954 of seasonal variations in prices of foodstuffs. Furthermore, the annual retail price reduction in April 1954 was considerably smaller than in 1953. In keeping with the relatively greater scarcity of foodstuffs the bulk of the reduction was in manufactured goods.

Several steps were taken in 1954 to increase the share of grain production procured by the state from kolkhozes. In June, grain procurement prices were increased, and arrangements were made to continue the practice established in 1953 of releasing manufactured consumer goods and certain building materials to kolkhozes on the basis of their record with regard to above-quota deliveries of bread grains to state procurement agencies.

The agricultural labor force was affected on several counts in 1954, partly as a byproduct of the new-lands program and partly as a result of measures concerned specifically with agricultural labor. That portion of the agricultural labor force working for wages, and hence subject to greater state control, was increased by the transfer of large numbers of workers from seasonal to permanent employment in the Machine Tractor Stations and by sending cadres to the new lands on a wage basis. Kolkhoz members, who are not on a wage basis, were subjected in 1954 to a new system of determining obligatory workdays. The significance of the new system was twofold. The new obligatory minimum of workdays for able-bodied kolkhoz members was higher than the minimum for the preceding year, thus furthering the effort to increase agricultural production on the old lands. But perhaps of greater significance was the fact that the new system gave the kolkhoz greater freedom in planning the utilization of manpower. It provided for the establishment of the workday schedule, both for the year as a whole and for the various seasons of farm work, by a general meeting of the kolkhoz members, who were to take into consideration the specific conditions on the individual kolkhoz.

Khrushchev had stressed at the February-March 1954 plenum that agricultural planning was too centralized, thereby impeding the use of available production alternatives, inhibiting local initiative, and weakening any general interest in increasing yields. He reminded the plenum that as far back as 1939 the Party and the government had abolished the order under which kolkhozes were given obligatory plans for each separate grain crop but that Gosplan and the agricultural ministries had ignored the action. The decentralization of workday

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planning introduced in 1954 presaged the introduction of a decree in March 1955 which formalized Khrushchev's sentiments toward greater decentralization in the planning of agricultural crops. Both actions indicated an increasing recognition of the fact that central planning had not taken account adequately of local variations in the circumstances of agricultural production.

Agricultural investment policy in 1954 was consistent with the requirements imposed by the new program. State investment in agriculture rose from 12 billion rubles in 1953 to 18 billion rubles in 1954. Although this increase did not represent fulfillment of the planned goal of 21 billion rubles, the shortfall appeared to be the result of inability to translate rubles into goods, especially construction materials and equipment, at so rapid a rate, rather than a failure of the state to pursue its stated agricultural investment policy. In addition to the state agricultural investment of 18 billion rubles in 1954, agricultural investment by the kolkhozes from their own funds and loans amounted to 21 billion rubles, an increase of 5.5 billion rubles over the 1953 level of 15.5 billion rubles. This sizable increase in investment by kolkhozes was made possible by the 1953-54 revisions in state procurement prices and tax policy, which had increased kolkhoz income, reportedly by 13 billion rubles in 1953 and 35 billion rubles in 1954. In addition, the state intensified its policy of encouraging kolkhozes to obtain long-term loans for investment purposes from the Agricultural Bank. Agricultural investment policy in 1954 thus produced an increase in total agricultural investment (state and kolkhoz) of approximately 40 percent over 1953. The 1955 plan for total agricultural investment indicates that agricultural investment policy will be geared to approximately the same level of activity as in 1954, the planned figure of 41 billion rubles for 1955 lying between the 42 billion rubles planned for 1954 and the 39 billion rubles actually achieved.

### III. Industry.

An indication of Soviet economic policy with regard to industry is to be found in the record of the relative share of total state investment allocated to the industrial sector of the economy and in the pattern of distribution of that share between heavy industry and the consumer-oriented light and food industries. During the Fourth Five Year Plan (1946-50) an average of 64 percent of total state investment was allocated to the industrial sector, as compared with an average

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of 50 percent in the late prewar years. All of the increase during this period was allocated in favor of heavy industry, while the light, food, and textile industries received a smaller share of total state investment than in the prewar period.

Until 1954 the pattern of distribution of state investment between heavy and light industry changed only slightly from the pattern set in the Fourth Five Year Plan. In 1953, heavy industry received 58 percent of total state investment, and light industry received 5.5 percent, together accounting for 63.5 percent of total state investment. The 1954 plan contemplated a shift in this pattern in favor of light industry. It was planned that heavy industry's share in total state investment would be reduced to 53.2 percent and light industry's share would be increased to 8.5 percent. The full extent of the planned shift in the relative shares to heavy and light industry was not realized. The share to heavy industry was reduced only to 55.7 percent, and the share to light industry was increased only to 7.3 percent, of total state investment. Yet this degree of change was a significant departure from the pattern of the past and was an indication that one of the various policy revisions made in conjunction with the new program was an actual shift in the pattern of state-allocated resources for investment.

Industrial production, as well as the investment pattern, showed some of the effects of the 1954 revisions in economic policy. The order of priorities for the allocation of materials, applicable to a large number of material inputs to industrial production, apparently was revised to some extent in favor of the consumer goods industries at the expense of the defense industry. It is estimated that consumer goods production (excluding food processing) increased 11 percent over the 1953 level. This performance nearly equalled the increases in the producer goods industries (energy, 10 percent; metals, 13 percent; chemicals, 14 percent; construction materials, 14 percent; and forest products, 10 percent). By contrast, production of military end items by the defense industry showed no increase, 1954 production being only 98 percent of the 1953 level.

In addition to improving the relative position of consumer goods industries in the allocation of inputs, 1954 changes in allocational policy served to increase the freedom of all producing ministries to plan the utilization of centrally allocated materials. At midyear 1954 the list of funded commodities (those subject to direct state allocation) was redrawn so as to reduce greatly the number of specific commodity entries, leaving in their stead more generalized categories

- 9 -

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which afforded the ministries greater leeway for substitution and detailed allocation. This action marked the reversal of a trend which, by 1952, had increased to 1,600 the number of commodities subject to detailed allocation by Gossnab, the organization established in 1948 to administer the funded commodity system.

Soviet profits tax policy in 1954 continued the trend, prevailing since 1950, of reducing the portion of total profits retained by the producing ministries and enterprises for their own use. During World War II, nearly all of the profits of enterprises were taxed into the state budget. This policy was relaxed after the war to permit the necessary reinvestment of profits into reconstruction, which was required generally throughout industry from 1945 through 1948, and to facilitate the adjustment of enterprises to the new wholesale price structure introduced in 1949. The portion of total profits retained by industry was permitted to rise from about 10 percent in 1946 to nearly 50 percent by 1949, reflecting the high level of investment in all areas of industrial activity. After the reconstruction and price reform period, Soviet profits tax policy, which permits only a very small portion of profits to be retained by consumer goods industries, worked to bring an increasingly larger portion of total profits of industry back into the state budget, as the high-profit consumer goods industries began to regain their prewar levels of production. The following table shows that planned deductions from profits to the state budget nearly doubled from 1951 to 1954, whereas the portion planned for retention remained at virtually the same ruble level throughout the period, thus reducing to 25 percent, by 1954, that portion of planned total profits which the state was willing to commit to reinvestment within the particular ministries originating the profit.

Planned Total Profits, Planned Deductions from Profits, a/  
and Planned Retained Profits in Soviet Industry  
1951-54

	Billion Current Rubles			
	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>
Planned total profits	76.8	88.1	111.5	123.2
Planned deductions from profits	47.2	62.0	80.7	92.6
Planned retained profits	29.6	26.1	30.8	30.6

a. For remission to the state budget.

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The number of workers entering industry in 1954, as in the previous years of the Fifth Five Year Plan, exceeded the planned increase in the industrial labor force, and labor productivity did not increase so rapidly as planned. As a consequence, the planned wage fund was again overexpended -- a chronic symptom of the Soviet system of forced development, which exerts constant pressure on the labor supply. With the operation of such a policy, the system of incentive bonuses and other wage premiums is misused frequently to attract workers on a competitive basis and thus is not always geared exclusively to production performances. The Council of Ministers continued in 1954 to point out the weakening of control over the expenditure of the wage fund in several areas and ordered the ministries to take serious measures to strengthen this control.

Overexpenditure of the planned wage fund and other cost pressures led to an underfulfillment of the planned profit goal in 1952 and a still greater underfulfillment in 1953. Evidence to date indicates that the government's reaction to this situation both in 1953 and in 1954 was a slackening off of the wholesale price reductions which had been carried out sporadically since 1949, pursuant to the policy announced at that time of passing along all cost savings through wholesale price reductions. The degree of fulfillment of the 1954 goal for planned profits has not yet been reported, but it is possible that fewer and smaller wholesale price reductions were made in 1954 so that such cost savings as were realized could be used to avoid a repetition of the large gap of the previous year between actual and planned profits.

The increasing overexpenditure of the industrial wage bill in 1953 and 1954, as well as the smaller state loan and the higher state procurement prices of those years, contributed to the building up of unused consumer purchasing power. In an effort to preserve a balance in the income flows between the state and the population, the annual state retail price reductions were granted on a scale considerably smaller than in previous years. By the end of the year it was apparent that price policy alone was insufficient to counter the increased purchasing power in the hands of the population. Consequently, the plan for subscription by the population to the annual state loan, which had been halved in 1953 to assure a purchasing power adequate to absorb the planned increase in consumer goods, was returned in 1955 to the higher level which prevailed prior to 1953.

- 11 -

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#### IV. Transport, Trade, and Housing.

Most of the economic policy adjustments in 1954 were in agriculture and industry, an indication of the size and the complexity of these sectors as well as of their importance to the functioning of the economy. Transport, trade, and housing -- much smaller activity sectors by any standard of measurement -- were, however, the subject of some policy considerations during the year, most of which were necessary adjuncts to the adjustments made in agriculture and industry.

From the point of view of state investment policy, the slighting of these three sectors has been a traditional feature of Soviet economic development. The allocation of state investment to the transportation and communications system has continually declined as a portion of total state investment since the period of reconstruction in the Fourth Five Year Plan. The continuation of this trend in 1954 reduced to 11 percent the share of total state investment allocated to this sector in contrast to 21 percent during the Fourth Five Year Plan. Thus in 1954 the predominant emphasis in transportation policy continued to be placed on a more intensive utilization of existing facilities and a continuation of the drive to reduce the average length of haul and to eliminate crossfreight. There were some indications during the year that this policy would be augmented in the near future by the introduction of new equipment and facilities at a greater rate. In part, this was in connection with the new lines needed to support the new-lands program, but, in addition, an impressive dieselization program was announced, production of electric locomotives increased significantly, and production of steam locomotives increased nearly to the level achieved during reconstruction in 1949.

Investment policy in 1954, because of the consumer goods aspect of the new program, had a pronounced effect on the trade sector of the economy. Traditionally the smallest recipient of investment allocations, this sector was to receive almost 2 percent of total investment in 1954 instead of the usual 1 percent. Although evidence indicates that this higher level probably was not quite attained, the actual increase -- as well as the intention of the plan -- was a significant departure from the past.

The share of the gross national product of the USSR originating in the trade sector continued to grow relative to other sectors in 1954 as the consumer goods supply increased: Soviet economic policy

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continued to draw an increasing portion of total retail trade into state and cooperative markets and away from the kolkhoz markets. Basically this trend is a product of urbanization, but, in 1954 as in past years, Soviet policy has been designed to encourage the shift. The 1953 order of the Ministry of Trade making consumer cooperative organizations responsible for acceptance of agricultural products on a commission basis from kolkhozes and kolkhoz members was continued in 1954. Another example of such a policy was the provision to extend credit in 1954 to consumer cooperatives for the purchase of agricultural products at purchase and ceiling-purchase prices, including advance payment to suppliers on contracts, regardless of the status of their settlements for Gosbank loans.

State investment allocations to housing, which had averaged between 12 and 13 percent of total state investment throughout the post-war period, were increased to 15 percent in the 1954 investment plan. Although an increase of such small magnitude was insufficient to provide a spectacular rise in housing accommodations, it appeared to be an upward revision of the housing policy originally guiding the new economic program. No mention was made of an increased allocation to housing in the 1953 pronouncements of the new program.

In addition to the increase in the proportion of total state investment allocated to housing, a significant aspect of Soviet housing policy in 1954 was the greater opportunity for construction of private housing. Throughout the year a continual effort was made to keep construction materials flowing to the open market. In the past the major deterrent to construction of private housing was the inability to obtain supplies, so that loans for construction, which could have been obtained at a nominal interest charge, went begging. Another boon to private housing, though limited in scope, was the granting of nonreturnable building loans to settlers in the new lands, the first time that outright grants have been made to private housing.

- 13 -

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