



~~File~~
~~for study~~
~~see i see forward~~

U/SI

File

~~Gen 100~~

~~Planned~~
~~growth~~

Research Aid

*The Soviet Economy: Performance in 1975
and Prospects for 1976*

ER 76-10296
May 1976

This publication is prepared for the use of U.S. Government officials. The format, coverage and contents of the publication are designed to meet the specific requirements of those users. U.S. Government officials may obtain additional copies of this document directly or through liaison channels from the Central Intelligence Agency.

Non-U.S. Government users may obtain this along with similar CIA publications on a subscription basis by addressing inquiries to:

Document Expediting (DOCEX) Project
Exchange and Gift Division
Library of Congress
Washington, D.C. 20540

Non-U.S. Government users not interested in the DOCEX Project subscription service may purchase reproductions of specific publications on an individual basis from:

Photoduplication Service
Library of Congress
Washington, D.C. 20540

THE SOVIET ECONOMY: PERFORMANCE IN 1975 AND PROSPECTS FOR 1976

SUMMARY

1. Although the Soviet economy suffered its most serious setback under Brezhnev in 1975, the leadership could ascribe the two major problems areas to factors outside of Moscow's control.

- Internally, the weather caused the worst harvest of the Brezhnev era resulting in a disastrous agricultural year, which retarded economic growth.
- Externally, a recession-induced decline in the Western demand for Soviet exports, coupled with increased grain imports, led to a fourfold increase in the country's hard-currency trade deficit.

On the more positive side, the rate of increase in consumer welfare was the same as in 1974, and the economy now is so large that the traditionally favored industrial and military sectors were hardly affected by last year's problems. Because of time lags, however, industry's performance will be down in 1976 as flows of raw materials from agriculture decline. Relatively moderate goals are embodied in this year's plan.

2. The 1975 harvest was the lowest in a decade. Grain production was less than two-thirds of the planned goal, with livestock especially hard hit by feedgrain shortages. Notwithstanding the cancellation of export commitments to Eastern Europe, extensive purchases abroad, and stringent conservation measures, the regime will be unable to make up the shortfall. Contracts signed since last July for foreign grain and soybeans from the 1975-76 crops totaled 32 million tons as of 4 May 1976; about 20 million tons of this total were delivered by the end of April 1976.

3. The reverses suffered last year are reflected in the current defensive tone of Soviet ideologues. During the past six months or so, Moscow's spokesmen have combined a reluctance to discuss their own economic problems candidly with heightened, at times even acerbic, criticism of Western economic difficulties.

4. Major economic indicators for 1975:

- Growth in gross national product (Western concept) slumped to about 2-1/2%, compared with the 4% annual average rate of growth during 1971-74.

May 1976

- The poor grain harvest dragged total agricultural output down by 9%. As a result, the leadership's ambitious livestock program has been put into a holding pattern for the next several years.
- Industry turned in a respectable performance with a rate of growth close to 6-1/2%, compared with a 5-1/2% annual average rise during 1971-74.
- Consumers enjoyed their highest level of living with total consumption increasing 2-1/2% on a per capita basis, even though this rate of growth was only half that achieved in 1973.
- Foreign trade turnover rose 35% in value with much of the growth accounted for by sharply rising imports of Western technology, equipment, and grain. Since Soviet exports failed to increase appreciably – because of the economic slowdown in the West – Moscow's hard-currency trade deficit deteriorated dramatically, from \$900 million in 1974 to more than \$5 billion last year.

5. In planning for 1976, the Soviet authorities have had to cut back targets to account for shortages arising from the shortfall of agricultural products in 1975. The goals for 1976 generally are realistic with one possible exception – agriculture. Although a statistical rebound from last year's agricultural shortfall is indeed likely, it is questionable whether the output of grain will reach the high level now projected.

- The implied planned increase in gross national product of 4-1/2% assumes above-average weather conditions in the major agricultural areas. As of the end of April, prospects were average, but the many uncertainties still to be decided could shift the results either way, possibly dramatically. A bumper harvest cannot be excluded at this time if all goes well as the year progresses; by the same token, deleterious weather conditions could result in a serious shortfall in grain production.
- The 4-1/2% projected increase in industrial output is the lowest planned for this sector since World War II. This reflects anticipated shortages of raw materials from agriculture and continuing lags in bringing new plant and equipment on stream.
- Growth in total investment is to be reduced to 3-1/2%, almost the lowest rate of increase since the war. The major emphases are to be on finishing uncompleted projects and expanding production capacity by replacing obsolescent equipment.

- The availability of consumer goods and services will grow at the lowest rates since the ouster of Khrushchev, and increases in wages and salaries will be held to 3% to restrain inflationary pressures.
- Another substantial balance-of-trade deficit with the West is almost certain this year. Deliveries of machinery and equipment ordered from the West during 1974-75 will remain high this year, and the 1976 bill for grain imports will be about \$2.2 billion.

6. A year ago we estimated that in 1975 relatively good internal economic growth coupled with a strengthened external economic position would permit the leadership to postpone reforms needed to attack the economy's endemic problems. Difficulties persist in the areas of productivity, introduction and assimilation of new technology, management and administration, and worker motivation. A year later no significant progress has been made nor have last year's agricultural problems focused Moscow's attention any more sharply on these matters. As the recent party congress demonstrated, no substantial movement is likely toward the adoption of reforms for rectifying these continuing problems, at least until new people move into key leadership positions. But even new personalities convey only the potential, not the probability, that significant reform measures might be implemented.

DISCUSSION

Economic Results in 1975¹

7. Last year the growth rate of gross national product (GNP) declined for the second year in a row, falling to 2.3% from the 3.7% level registered in 1974 (see Table 1). Although the benchmark for this lackluster performance was the exceptionally good record achieved in 1973, the 1974-75 results were well below the historical trend of the past decade. Last year's 8.8% drop in agricultural production – the third decline in four years – was instrumental in pulling down aggregate output because agriculture represents about one-fifth of GNP. Nevertheless:

- Agriculture's problems were largely restricted to that sector. The decline in overall growth was less than in similar harvest shortfalls in the past because of the grain crop's diminished share of GNP. More important,

1. A summary of economic indicators is shown in the Appendix.

to minimize the impact, Moscow took prompt action, such as releasing reserve stocks, canceling exports, and arranging for imports.

- Industrial production held its own by growing by an estimated 6.3%, somewhat better than the annual average rate of increase of the previous four years. In contrast to prior years with harvest shortfalls, there were no press accounts last year of the emergency transfer of industrial workers, trucks, and railroad cars to the countryside. This may explain in part the relatively good performance of industry in 1975 compared with previous drought-stricken years.
- Consumers enjoyed the highest level of living in Soviet history with apparently far fewer food shortages in the short term than previously associated with crop failures. The Soviet press showed less evidence of consumer concern or displeasure with conditions than would normally have been expected. The handling of public relations appears to have been more sophisticated than earlier. Throughout the summer the regime sought to minimize the seriousness of the drought problems, giving few details and reassuring consumers about the adequacy of food supplies. Earlier campaigns and sloganeering to mobilize the population were largely avoided. Instead, the Soviet propaganda apparatus went into high gear depicting the current problems of the capitalist economies, particularly those in the industrialized West. By such diatribes Moscow sought to deflect domestic attention from last year's economic problems and to avert the criticism that is certain to mount as the full import of the 1975 crop failure impacts on the Soviet consumer this year.

8. The regime probably recognizes that the economy has bounced back vigorously from weather-related crop failures numerous times in the past. The attitude expressed repeatedly at the 25th Party Congress in February-March 1976 was (1) the weather was the main villain in 1975, (2) everything possible was done to minimize the losses, and (3) future growth is assured by following the policies that have resulted in the development of the USSR into the second most powerful economy in the world. Stressing the role of weather, Brezhnev told the congress:

- The congress delegates know that the development of agriculture in the past 5-year plan period was carried out in a very difficult struggle with the elements. Of the 5 years, only one, 1973, was good, and 2 years, 1972 and 1975, were marked by unprecedented droughts. Our villages

have not faced such an unfavorable combination of circumstances in any 5-year plan period. Decisive measures adopted by the party, the strenuous, and with no exaggeration, heroic labor with which the collective and state farms responded to the appeal of the Central Committee, significantly improved the situation. On the whole, agricultural production has been increasing.²

Table 1
USSR: Growth of GNP, by Sector of Origin¹

	Percent				
	Average Annual 1966-70	1973	1974	Prelim- inary 1975	Average Annual 1971-75
Gross national product,					
by producing sector	5.4	7.1	3.7	2.3	3.9
Agriculture ²	4.5	14.9	-1.3	-8.8	-0.6
Industry	6.1	6.1	6.3	6.3	5.9
Construction	6.9	3.7	6.1	6.5	6.4
Transportation	6.6	7.3	7.0	6.0	6.4
Communications	8.9	7.2	7.3	8.0	7.4
Trade	8.2	5.1	5.6	6.8	6.2
Services	4.0	3.5	3.4	3.6	3.4
Other	4.5	5.9	2.6	1.5	3.1

1. Calculated at factor costs.

2. This measure for agricultural output excludes intra-agricultural use of farm products but does not make an adjustment for purchases by agriculture from other sectors. Value added in agriculture grew by an average of 4.2% in 1966-70, -0.9% in 1971, -8.7% in 1972, 16.4% in 1973, -2.9% in 1974, and -12.0% in 1975.

Industry

9. The 6.3% growth in output was generally in line with industry's record during the past decade (see Table 2). Behind this creditable overall performance, however, substantial increases in the production of industrial raw materials offset the low rate of increase of 2.5% in the consumer nondurables sector – processed foods and soft goods. Processed food production increased at the lowest rate since World War II, and the situation was not much different for soft goods. The problem for this sector in recent years has been largely meeting demand for better quality and greater assortment rather than merely increasing quantity. The output of

2. Brezhnev's statement, "of the 5 years, ... 2 years ... were marked by unprecedented droughts," exaggerates the situation. During the past 50 years or so, droughts of roughly the severity experienced in 1972 and 1975 have occurred several times each decade.

Table 2

USSR: Growth of Industrial Production

	Percent				
	Average Annual 1966-70	1973	1974	Preliminary 1975	Average Annual 1971-75
Total	6.1	6.1	6.3	6.3	5.9
Materials	6.0	5.6	5.4	5.9	5.5
Electric power	7.9	6.8	6.7	6.4	7.0
Coal products	2.0	2.0	2.4	2.5	2.3
Petroleum products and natural gas	7.8	7.2	7.1	7.7	7.2
Ferrous metals	5.5	4.4	4.1	4.5	4.1
Nonferrous metals	8.2	4.2	4.9	5.0	5.0
Forest products	3.5	4.2	3.2	4.6	3.8
Paper and paper-board	7.2	5.9	4.3	5.0	5.0
Construction materials	6.4	5.8	4.7	4.7	5.2
Chemicals	8.7	9.2	9.4	11.1	8.8
Machinery	6.1	8.4	8.6	8.6	8.0
Consumer nondurables	6.2	3.0	4.2	2.5	4.6
Processed foods	4.7	3.2	5.7	2.7	3.6
Soft goods	8.0	2.8	2.7	2.4	2.6

consumer durables – a component of the machinery sector – also fell below the rapid rates of increase registered earlier in the 1970s.

10. Producer durables (the other component of the machinery sector besides consumer durables and military machinery) also grew slower than the typically rapid rates usually associated with this sector. Many types of machinery missed their production targets, partly because supplies of metal products were inadequate, as evidenced by Soviet press commentary and statements by heads of affected machine-building ministries. This was particularly true of locomotives, rolling stock, and agricultural machinery. The output of construction equipment, however, accelerated last year.

11. The industrial materials sector grew impressively in all branches except electricity and construction materials. The chemical branch was the star performer,

posting an 11% increase, and the output of ferrous metals grew by 4-1/2%. Nevertheless, Soviet requirements for imported steel have not abated, and problems persist in meeting plans for the assortment of finished rolled products.

Energy

12. Production of primary energy grew by 6.1% last year, somewhat above the average annual increase recorded during the past decade. Alone among the industrialized world powers, the Soviets continued to enjoy the comfortable position of producing enough energy to meet domestic needs as well as providing a surplus for export. About half of the latter, however, is committed to Eastern Europe, thus denying the Soviets the option of alleviating part of their huge balance-of-payments deficit by exporting additional quantities of fossil fuels to hard-currency areas. Despite this constraint, exports of oil to the West last year continued to be the USSR's largest single source of foreign exchange, probably earning \$3 billion.

13. The production of crude oil and natural gas exceeded the revised plan for 1975 but fell below the original goals for that year by 3% and 10%, respectively. The absolute annual increases of both fuels were at record levels, primarily – in the case of oil – because of the rapid development of fields in West Siberia, which compensated for the leveling off of output in the Urals-Volga region. A near record 7,300 kilometers of gas pipelines were completed in 1975. The further development of both fuels depends in part on imports of Western technology and equipment; nevertheless, last September Moscow reportedly postponed half of the 25 major projects in the oil industry that were under consideration with Western firms. This decision probably was influenced by uncertainties over the country's balance of payments.

14. The production of coal last year exceeded the planned target as it has consistently during the 1970s. The Soviet electric power industry met its lower, revised production goal for 1975, but the plan for constructing new generating capacity was not met. Moreover, the highest rate of development in the industry is taking place in eastern areas where the potential is the greatest but where demand is relatively low. These trends mean that lower rates of growth of this energy source in the areas of greatest need are in prospect during the rest of the 1970s – factors of considerable importance inasmuch as increased supplies of electricity will be required if projected increases in labor productivity are to be attained. Further exacerbating the country's electric power situation in 1975 were low water levels in the European USSR and delays in the construction of new powerplants.

Other Industries

15. As in prior years, the production of machinery was the bellwether of Soviet industry in 1975, with technologically advanced items or those destined for agriculture leading the way. The 1974 base level used in making the calculations shown in Table 3 was in many cases extremely low.

16. The past year witnessed the step-up in production of a Soviet new family of third-generation computers. This series, known as RYAD, is modeled on the early 1960s' technology of the IBM 360 line. Despite the rapid increase in machine tool production, the Soviets have maintained low replacement ratios with a resulting rise in the share of obsolescent units. The rate of increase in passenger car production fell from 22% in 1974 to 7% as capacity output levels were generally reached in all automobile manufacturing plants. In addition to machinery and equipment, industrial support of agriculture included 14% increases in the production of both fertilizers and pesticides.

17. The chemical industry retained its position among the fastest growing Soviet industries, but numerous problems beset this favored field: construction deadlines are frequently missed, capacity is often underutilized because new technology is poorly assimilated, and the quality and assortment of many final products still fail to meet modern standards as well as consumer demand. Reflecting the chemical industry's priority, the Soviets last year placed new orders in the West for more than \$1 billion of chemical equipment – a repetition of their experience in 1974, caused by both qualitative and quantitative shortcomings in the domestic equipment manufacturing industry.

18. Soviet ferrous metallurgy in 1975 followed the pattern established in recent years: a low, steady rate of growth of 4.5% that was insufficient to satisfy demand. As a result, imports of steel products exceeded exports for the third year

Table 3

USSR: Production of Selected Machinery Items, 1975

	Percentage Increase 1975 over 1974 ¹
Computer equipment	32
Numerically controlled machine tools	25
Automated control systems	15
Instruments	12
Agricultural machinery for livestock production	12
Chemical equipment	11
Technical equipment for light industry	10
Grain combines	10
Balers	10

1. All percentages except for grain combines and balers are derived from ruble value data, which are believed to contain upward bias because of high prices assigned to new or improved products.

in a row. Despite some improvement recently, the steel industry – as in the case of the chemical industry – falls short in terms of quality output, the assortment of products desired, and efficiency in production. In nonferrous metallurgy, the major emphasis last year was on expanding aluminum plants east of the Urals and further developing the important mining complex at Noril'sk in the north.

Agriculture

19. The 1975 harvest was the worst during Brezhnev's decade of leadership. The official grain production figure of 140 million tons for 1975 was the lowest since 1965, when needs – especially requirements for livestock feed – were 25% lower. As grain accounts for roughly one-third of total value of crop production in the USSR, this shortfall cut the output value of all crops by one-tenth and reduced net farm production by about 9%. (see Figure 1).

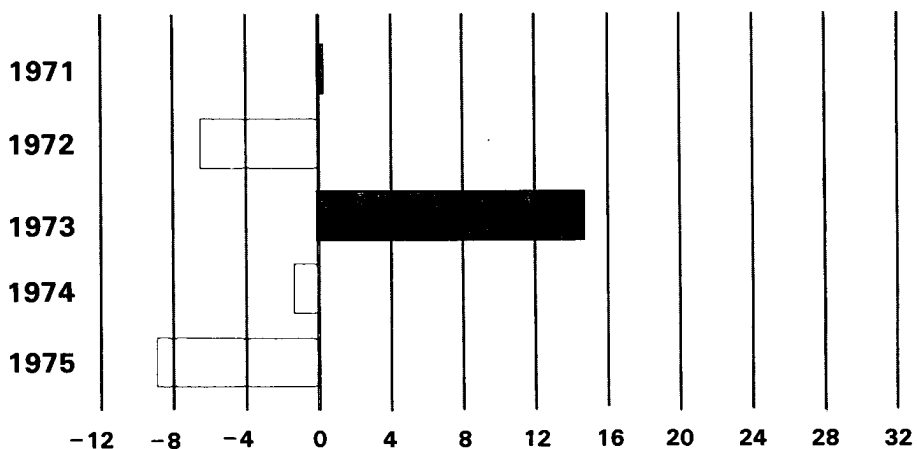
20. With grain production less than two-thirds of needs, the leadership took a number of stopgap measures to lower the demand for grain.

- Conservation measures such as feeding reeds, leaves, and other low-grade fodder to livestock and the transfer of animals from drought to nondrought areas were taken because the drought not only damaged grain prospects but cut forage crops as well.
- Export commitments to Eastern Europe, heretofore considered sacrosanct, were canceled. Such shipments had been running at about 7 million tons yearly in the 1970s.
- The Soviets contracted for about 32 million tons of foreign grain and soybeans (30-1/2 million tons of grain, 1-1/2 million tons of soybeans), largely for delivery through 30 June 1976. For the first time, they committed themselves to a five-year grain import agreement with the United States.
- Nonstrategic grain reserves were also used.
- Even so, feed supplies were inadequate, and by late summer, state and collective farms as well as private owners began distress slaughtering of livestock; inventories of hogs and poultry by the year's end had dropped 20% and 15%, respectively. As a result, net livestock production (including changes in inventories) for the year was down 7%, even though the output of several major livestock categories increased.

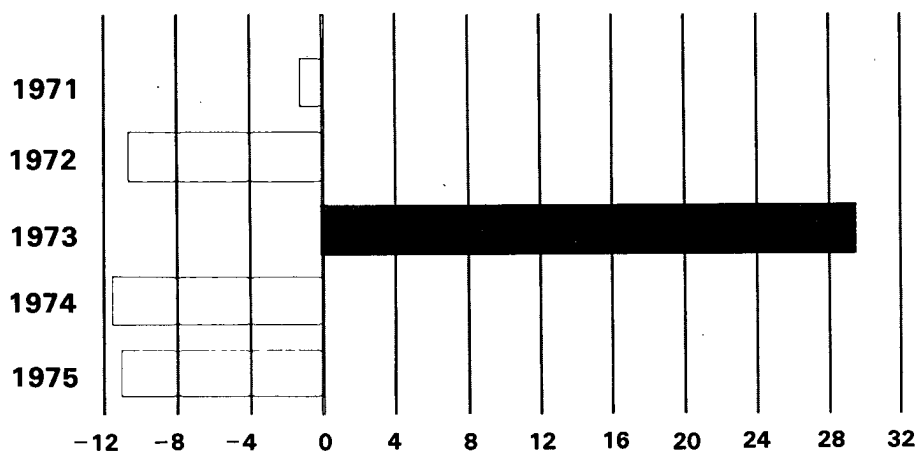
Figure 1

USSR: Percentage Change of Agriculture Output

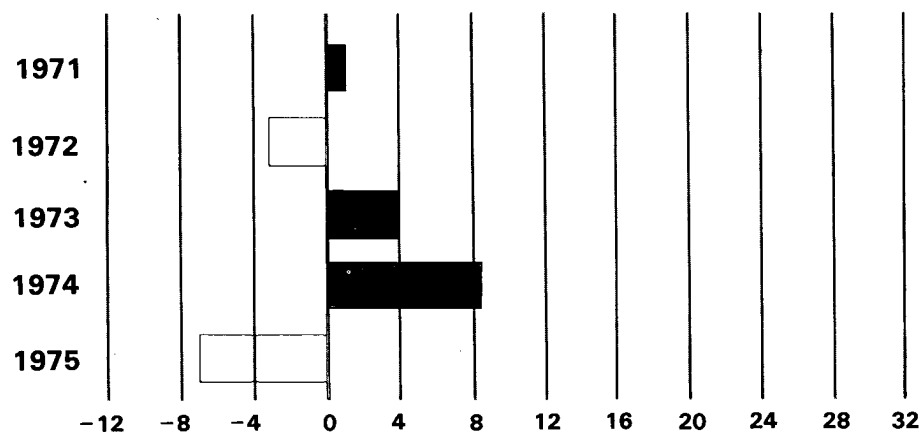
Total Net Farm Output



Total Crops*



Net Livestock Production**



*Less grain and potatoes used for seed.

**Gross livestock production, including changes in inventories, less grain, potatoes, vegetables, and milk fed to livestock, and hatching eggs.

569241 4-76

Despite all these measures, the grain deficit has not been entirely erased. The next few months, at least until the 1976 crop becomes available, will be characterized as a period of austerity, conservation, and further decline of livestock inventories to bring demand into line with estimated supplies. Public dissatisfaction will also rise, with unrest and civil discontent likely to increase from the level of the first instances reported this spring.

21. Last year's drought affected other crops in addition to grain. Among the nongrain crops only the output of potatoes was higher last year than in 1974, but the 88-1/2-million-ton harvest was lower than the annual average for 1971-74 (see Table 4). In addition to serving as a food, the improved potato harvest will help somewhat to alleviate the livestock feed deficit as potatoes are particularly suitable for feeding hogs. Sugarbeet production of 66 million tons was the lowest since 1963. Sunflower seed and vegetables were down from 1973-74 levels with sunflower seed production off by almost one-third. Cotton production – the second highest on record – was the single bright spot in this otherwise dismal picture for crops.

22. The importance the leadership attaches to the livestock development program, first unveiled by Brezhnev in 1965, was reflected in efforts to maintain cattle numbers as high as possible despite the disastrous harvest (see Table 5). Cattle numbers crept upward slightly while the number of cows held steady at last year's total of 42 million head. Slaughtering and reduced breeding cut hog and poultry inventories from last year's levels, but recovery in these categories – unlike cattle – is relatively rapid given adequate feed supplies. Sheep and goat numbers dropped back to the annual average of the early 1970s. In terms of livestock products, the output of meat, eggs, and wool was at record levels.

23. In 1975 the leadership continued to channel massive amounts of resources into farming. The average annual rate of increase of more than 10% in investment in agriculture and its supporting industrial branches during 1971-75 was more than double that in all other sectors of the economy considered as a whole. Deliveries of fertilizer last year increased by 14-1/2%, in line with the planned goal. Greater production of both tractors and agricultural machinery was accompanied by the introduction of new, more productive models and by increased stress on improving overall quality. Both aspects will continue to rely on advanced technology embodied in products and processes imported from the West.

Capital Investment

24. A basic feature of Soviet growth has been large expenditures on new capital formation. In 1975, one-fourth of GNP was devoted to expanding the stock

Table 4

USSR: Production of Selected Crops and Livestock Products

	Annual Average 1966-70	1973	1974	Prelim- inary 1975	Annual Average 1971-75
Million Metric Tons					
Crops					
Grain	167.6	222.5	195.7	139.9	181.5
Potatoes	94.8	108.2	81.0	88.5	89.7
Sugar beets	81.1	87.0	77.9	66.2	75.9
Sunflower seeds	6.4	7.4	6.8	5.0	6.0
Vegetables	19.5	25.9	24.8	22.3	22.7
Cotton	6.1	7.7	8.4	7.9	7.7
Thousand Metric Tons					
Livestock products					
Meat (slaughter weight)	11,583	13,527	14,620	15,200	14,050
Milk	80,553	88,300	91,760	90,800	87,445
Wool	398	433	461	463	441
Billion					
Eggs	35.8	51.2	55.5	57.7	51.5

Table 5

USSR: Livestock Inventories

	Million Head on 1 January					
	1971	1972	1973	1974	1975	1976
All cattle	99.2	102.4	104.0	106.3	109.1	111.0
Cows	41.0	41.2	41.7	41.4	41.9	41.9
Hogs	67.5	71.4	66.6	70.0	72.3	57.8
Sheep and goats	143.4	145.3	144.7	148.5	151.2	146.9
Poultry	652.7	686.5	700.0	747.7	792.4	674.0 ¹

1. Estimated.

of new plant and equipment, while less than one-fifth of US GNP went to this purpose. Investment has long been one of the chief concerns of Soviet leaders; failure to complete projects – thereby tying up enormous amounts of capital unproductively – still remains a serious problem despite a continuing campaign aimed at rectifying it. In 1975 the Soviets plugged away at their dual program of (1) completing projects that have been under construction for years and (2) finishing the renovation and expansion of existing plants, many of which have been undergoing modernization for similar periods of time. Gross additions of new fixed capital increased by 8%, an improvement over 1974 but still well below the 10-1/2% increment achieved in 1973 (see Table 6). As in prior years, this retardation in growth reflects problems in the supply and installation of machinery and equipment rather than a lack of increases in new construction starts, which was characteristic of Soviet investment policies of the 1960s. Total new fixed investment last year grew at a rate somewhat above the average annual rate of increase registered during the past decade.

Table 6

USSR: Indicators of Capital Formation

	Average Annual 1966-70	1973	1974	Percent Prelim- inary 1975
Total new fixed investment	7.6	4.7	7.1	8.5
Gross additions of new fixed capital ¹	8.3	10.6	4.7	7.8
Backlog of unfinished construction ²	12.1	2.9	6.8	8.3

1. The term "gross additions of new fixed capital" differs from "gross fixed investment" in that it counts only those investment projects which were completed.

2. Some equipment installed in unfinished plants is included in this category.

Consumer Welfare

25. In general, the consumer was unaffected during 1975 by agriculture's problems. A reduction in the inventory of processed foods, coupled with the usual lag between a crop shortfall and a downturn in the output of livestock products, kept enough food in the marketing pipeline. For the year as a whole, per capita food consumption increased 1-1/2% and meat consumption was up 1%, reaching a record level. Only late in the year, in parts of the drought-stricken area, shortages

of some food products – particularly flour and in some cases sugar – were reported. An increase in meat prices in the free markets was due not to shortages but rather to higher incomes and greater demand. The greater availability last year of certain nonfood consumer goods and services eagerly sought by the Soviet populace may have helped defuse the potential problems arising from the disappointing harvest.

26. The increase in average wages was down appreciably from 1974, but nonwage benefits rose enough to maintain the growth in per capita real income at the pace of a year earlier (see Table 7). Nevertheless, average annual increases actually achieved during 1971-75 fell short of planned targets as part of the leadership's policy to restrain inflationary pressures. The populace continued to display increasing resistance to buying poor quality items or those available only in limited variety. As in past years, consumers continued to salt away much of their excess purchasing power. Deposits in savings banks rose by 15% to 91 billion rubles, or the equivalent of well over one-third of total money incomes compared with one-quarter of total incomes in 1970.

27. Some progress was made in 1975 in implementing Brezhnev's much-delayed welfare package. The rise in the minimum wage to 70 rubles a month, first promised in 1971, was finally achieved last year.³ Redemption of state bonds, which have been frozen since 1958, also began, thus adding 1 billion rubles to consumer incomes.

28. On a per capita basis, the increase in consumption fell off for the second year in a row to less than half the rate of growth achieved in 1973 (see Table 8). The Soviet consumer's diet did not improve appreciably even with increased supplies of meat. Although still impressive, the growth in consumption of consumer durables was half the 1973 rise. With the completion and virtual attainment of capacity production at the country's automobile manufacturing plants, Soviet passenger car production has leveled off at 1.2 million units annually, as has the share (less than two-thirds) of the output sold to the public.

29. The brightest aspect of the consumption picture was in sales of soft goods, primarily shoes and clothing. The marked increase may reflect, in part, the nationwide effort to improve the quality and styling of these items and also a cut in inventories as consumers respond to price reductions on slow-moving articles.

3. Since 1965 the minimum wage has increased from 50 rubles a month to 70 rubles, maintaining its relative position at about one-half of the average wage (96-1/2 rubles a month in 1965, 146-1/2 rubles a month in 1975).

Table 7

USSR: Growth of Income and Wages

	Percent				
	Average Annual 1966-70	1973	1974	Preliminary 1975	Average Annual 1971-75
Real per capita income ¹	5.8	5.0	4.2	4.2	4.3
Wages of					
Nonfarm workers	4.6	3.5	4.5	3.8	3.6
Farm workers	6.5	6.4	5.2	5.4	5.5

1. Soviet definition. In addition to money income, the official series includes incomes in kind and the value of certain services provided free to the populace.

Table 8

USSR: Growth in Per Capita Consumption¹

	Percent				
	Average Annual 1966-70	1973	1974	Prelim- inary 1975	Average Annual 1971-75
Total consumption	4.8	5.1	3.2	2.5	3.1
Food	3.9	6.9	2.1	1.6	2.7
Soft goods	6.5	2.1	2.2	3.7	2.5
Personal services	5.1	4.0	4.9	4.6	4.4
Durable goods	8.9	9.8	9.5	5.1	8.0

1. Established prices, 1970.

In the category of consumer services, the total supply of new housing edged up by 2.8%; the quantity of new housing was marginally above the average annual amount built during 1971-74. Per capita living space remains below even Soviet norms, to say nothing of acceptable levels in other industrialized countries. Little progress was evident in correcting the endemic problems of Soviet housing deriving from the country's building practices: faulty construction, shoddy workmanship, poor design, and monotonous repetition of standardized units nationwide.

Foreign Trade

30. Foreign trade grew by 35% in *value* last year following an almost 24% rise in 1974. Trade growth in *volume* (constant price) terms was considerably less. Soviet trade grew in volume by 17% in 1974 and probably by only 10% to 15% in 1975 when the dollar value of Soviet trade was inflated by (1) higher prices for imports from the West, (2) increased dollar valuation of Soviet-East European trade, and (3) a shift in the ruble-dollar exchange rate in favor of the ruble (see Table 9).

Table 9

USSR: Growth in Total Trade Turnover

	Percentage Increase from Previous Year	
	Volume	Dollar Value
1971	5	7
1972	10	20
1973	14	34
1974	17	24
1975	10-15 ¹	35

1. Estimated.

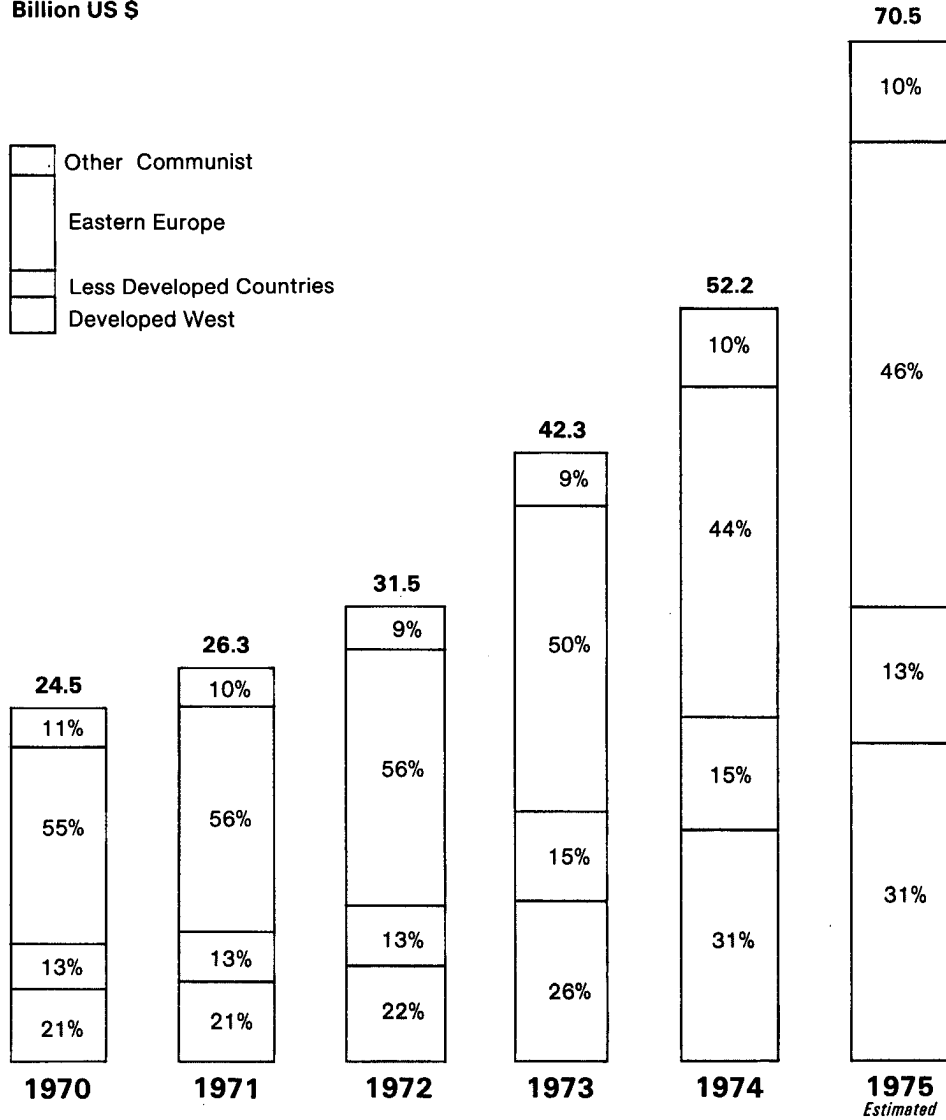
31. The dollar value of total turnover (exports plus imports) last year was more than \$70 billion, with the developed Western countries accounting for approximately \$22 billion, or nearly one-third of the total (see Figure 2). Behind these impressive rates of growth in value terms, the volume of the USSR's foreign trade grew by lesser rates of increase as inflation in the West and negotiated price increases in both the USSR and Eastern Europe played an important role. Eastern Europe remains the major area of trade concentration for the Soviets, accounting for about one-half of total turnover.

32. The particularly rapid rise of Soviet imports from the developed West has resulted in large hard-currency deficits in recent years. Last year Soviet hard-currency imports rose by one-half to more than \$14 billion, primarily for increased amounts of Western machinery and equipment, steel products, and grain (see Table 10). At the same time, widespread recession in the West limited the demand for Soviet products in hard-currency areas (see Figure 3). As a consequence, the USSR incurred a record hard-currency deficit estimated at more than \$5 billion compared with one of \$900 million a year earlier.

Figure 2

USSR: Foreign Trade, by Major Area

Billion US \$



569242 4-76

33. The Soviets finance their large and escalating hard-currency trade deficits through a combination of credits and gold sales. With the conspicuous exception of the United States, Western governments have extended or backed more than \$11 billion in long-term credits to finance Soviet purchases of machinery and equipment since mid-1974. The USSR's medium- and long-term debt rose rapidly last year to at least \$7 billion. Debt service remains manageable, as it accounted for less than one-fifth of Moscow's hard-currency earnings in 1975. The USSR arranged for more than \$3 billion in medium- and long-term credits in 1975,

Table 10

USSR: Machinery and Equipment Orders from Western Countries¹
by Type

	Million Current US \$ ²			
	1972	1973	1974	1975,
Total	1,575	2,285	4,125	4,040
Chemical and petrochemical	250	440	1,100	1,205
Mining and construction	70	20	765	425
Petroleum and gas, refining and pipeline ³	235	225	510	390
Motor vehicle manufacturing	270	620	335	295
Ships, marine, and port	100	95	280	130
Textiles	45	45	175	185
Electronics	55	30	145	245
Timber and wood processing	110	130	110	25
Metallurgical and metalworking	55	335	105	290
Consumer goods manufacturing	85	180	90	70
Other	300	165	510	780

1. Excluding Finland, which maintains a clearing agreement with the USSR.

2. Rounded to the nearest \$5 million.

3. Excludes large-diameter steel pipe.

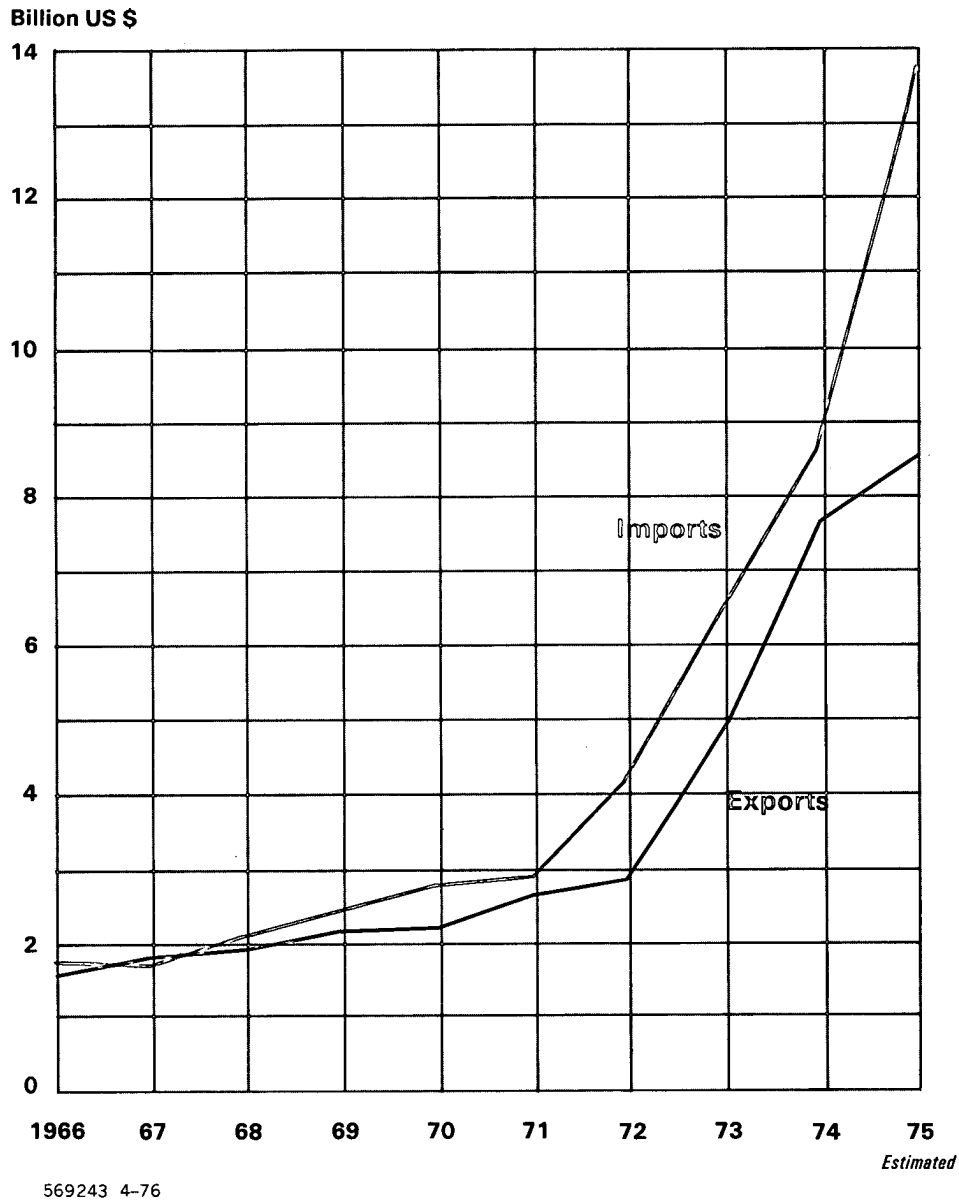
including at least \$750 million in Eurocurrency borrowing. Although the weakness that developed in the international gold market in the latter part of the year dampened Moscow's willingness to sell gold, total 1975 sales may have been as much as \$1 billion.

34. Despite the sharp increase in its trade deficit, the USSR last year continued its policy of heavy purchases of Western technology and equipment to upgrade its domestic industry. The Soviets signed contracts for more than \$4 billion of such items, primarily with France, West Germany, and Japan. Increased orders for technology and equipment in the chemical, electronics, consumer goods, and metallurgical-metalworking industries were only partially offset by the decline in contracts for mining and construction equipment.

35. According to US data, Soviet trade with the United States more than doubled to \$2.1 billion as US grain deliveries rose by more than \$800 million to \$1.1 billion. Soviet imports of US machinery and equipment also more than

Figure 3

USSR: Hard Currency Merchandise Trade



doubled – to \$547 million – as many of the items ordered in 1972-74 were actually shipped. Soviet exports, however, fell by 21% to \$277 million as US demand for platinum and platinum-group metals declined drastically.

36. Four-fifths of the USSR's intra-Communist trade was with Eastern Europe, which experienced a rise in the prices of Soviet exports by roughly

one-third; the charges for Soviet fuel more than doubled. For their part, the East European countries were able to raise their prices of machinery and other manufactures shipped to the USSR by an estimated average of 18%. In addition, Moscow canceled all shipments of grain from the 1975 harvest to Eastern Europe, which customarily imports about half of its grain requirements from the USSR.

Plans and Prospects for 1976

37. Soviet projections for this year generally are moderate, reflecting the delayed impact of last year's harvest failure (see Table 11). The consumer will be hardest hit, but growth of industrial production will be slowed, and the Soviets will continue to carry a large hard-currency trade deficit. Moreover, the USSR's agricultural situation will remain precarious with carry-over stocks of grain depleted, livestock herds reduced, remaining livestock underfed, and output goals dependent on above-average weather.

Table 11

USSR: Growth of GNP, by Sector of Origin¹

	Percent		
	1974	Preliminary 1975	Plan ² 1976
GNP	3.7	2.3	4½
Industry	6.3	6.3	4½
Construction	6.1	6.5	2½
Agriculture ³	-1.3	-8.8	8½
Transportation and communications	7.1	6.1	5½
Trade	5.6	6.8	3½
Services	3.4	3.6	3½

1. Estimated, at factor costs.

2. Based on Soviet plans for individual sectors; rounded to nearest half percent.

3. This measure for agricultural output excludes intra-agricultural use of farm products but does not make an adjustment for purchases by agriculture from other sectors.

38. Highlights of the 1976 economic plan include:

- Improvement in the rate of growth in gross national product to about 4-1/2% from 1975's preliminary estimated rate of 2.3%. Although the 1976 rate of growth is higher than the average annual rate achieved since

1970, it presupposes that above-average weather conditions will prevail throughout the major agricultural areas during the growing and harvesting period.

- A rebound in agricultural growth – from -8.8% last year to 8.7% in 1976. Considerable recovery is statistically probable from the 1975 shortfall, but a swing of this magnitude is unlikely without markedly propitious weather conditions.
- A mixed bag for the consumer, with slow growth in soft goods, durables, housing, and other services and deteriorating diets in terms of quality, quantity, and variety of foodstuffs as ramifications of the 1975 crop failure become fully manifest.
- A continued gradual rise in capital investment with the emphasis on finishing uncompleted projects and channeling additional resources into agriculture.
- Further growth in foreign trade, particularly with the developed West.

Industry

39. The record low rate of overall industrial output projected for 1976 – 4.3%, or roughly two-thirds of annual plans for industrial production in the first half of the 1970s – is calculated from similarly low growth rates for the two major components of Soviet industry. According to Soviet parlance, Group "A" industry (primarily producer goods) is to increase by 4.9%, whereas Group "B" industry (largely consumer goods) will grow by 2.7%. The traditional primacy of heavy industry is thus reaffirmed for the fourth year in a row despite Moscow's intention at the outset of the last five-year plan (1971-75) to reverse this emphasis. It is questionable, however, if this represents a policy decision or is the result of the inevitable working out of economic forces not readily subject to leadership manipulation.

- The 1975 crop shortfall will deprive the light and food industries this year of significant amounts of raw materials, primarily fibers and animal byproducts.
- Heavy industry, as the sector producing investment goods and industrial materials, including energy, determines the production potential of light industry.

- Although the drop in the planned rate of growth of Group "B" industry is greater than that for Group "A" industry, the target for the latter is down by a substantial amount. This suggests that the chronic problems of completing new plants and reaching capacity operation, when coupled with a slowdown in the rate of growth of the industrial labor force, will restrict industrial growth in both sectors.

40. As in prior years, the 1976 goals for fuels and power were among the few that have been released thus far. All are relatively moderate and consistent with historical trends. The entire increase in crude oil output to 520 million tons – 10.4 million b/d – and 40% of the growth in the production of natural gas to 313 billion cubic meters are to come from West Siberia; Western technology and equipment will be important, but not critical, especially for pipeline construction, in realizing these targets. The reduced rate of increase in electric power of only 5.5% is consistent with past trends in the planned growth of industrial output and electric power, but it may have an adverse effect on the industrial labor productivity goal, which is to account for 80% of the increase in industrial output. Productivity gains in this sector are dependent on the introduction of new equipment and advanced technology that require accelerated supplies of electric power per unit of industrial output.

41. The chemical and petrochemical industry continues to receive high priority this year, with output scheduled to rise by 7%. State investment in the industry is planned to increase by an impressive 25%, primarily in the branches producing fertilizers and polymeric materials. In contrast, a 10% rise in investment in metallurgy indicates more moderate prospects for this branch of industry.

42. This year Moscow plans to commission the initial production facilities at the Kama Truck Plant, the most celebrated construction project of the 1971-75 plan period, but only limited production is expected before 1977. Lower growth rates in prospect for tractors and other agricultural machinery may reflect a retrenchment in investment in these branches, but the emphasis on quality and on improving the product mix probably plays a role as well.

Agriculture

43. The 8.5% growth goal in agricultural output will depend on an exceptionally strong recovery in grain crops. It is premature to predict even roughly the size of the 1976 grain crop. Because spring growing conditions are so important, it will be at least mid-July before reliable estimates can be made. Winter grains

normally account for roughly one-third of grain production. Unusually low temperatures and inadequate snow cover have caused substantial winterkill in the southern Ukraine, lower Volga Valley, and northern Caucasus; nationwide, winterkill probably will exceed the usual 15% to 20%. In the spring grain areas, soil moisture has improved markedly since last fall, but it remains below normal in the Volga Valley and Urals regions, which were especially hard hit by drought last year.

44. If weather conditions enable the Soviets to harvest considerably more than the roughly 175 million tons of grain needed for minimum domestic requirements, they can (a) increase the weight of animals being marketed, (b) begin the process of rebuilding livestock herds, and (c) start to replenish carry-over grain stocks.⁴ If the harvest merely meets minimum needs, expansion of herds would be postponed.

45. Another harvest failure would force further large reductions in livestock numbers and additional massive imports of grain from hard-currency areas, worsening the large trade deficit anticipated in 1976. In turn, this might force the USSR to make substantial cutbacks in nonagricultural imports from the United States and other hard-currency areas to avoid rapid buildup of foreign debt.

46. Because of the time required to rebuild livestock inventories, the most that the Soviets can hope for in this sector in 1976 is to limit their losses and to prepare for expansion in the years to come.

Capital Investment

47. Growth in total investment is to be reduced to about 3½% from the 8.5% realized in 1975. Concomitant with these lowered expectations is the projected continuation of past patterns rather than new initiatives or a restructuring of priorities. Additional effort is to be directed at reducing the excessive amount of capital tied up in unfinished investment projects, and the share of producer durables scheduled to replace obsolescent equipment is to be increased. Agriculture and its supporting industries are to maintain their priority status, which funnels more than one-third of total investment to these claimants.

4. Although the grain production target this year is 205-210 million tons, actual requirements are estimated as 175 million tons because of reduced livestock inventories.

Consumer Welfare

48. In 1976 the Soviet populace faces the smallest gains in the Brezhnev era. The rate of increase in per capita real income (3.7%) will decline from the 1974-75 level, and the rise in the average wage for workers and employees will be held at a low 2.7%. Both indicators reflect the limited prospects for increased supplies of consumer goods and services—the lowest in more than a decade—as well as the leadership's determination to restrain inflationary pressures. The volume of retail trade is slated to expand by no more than 3-1/2%. Although the increment planned in new housing is one of the smallest in years, a measure of this target's realism is the likelihood that it will be met.

49. Probably the most serious problem in 1976 will be an expected one-quarter drop in per capita meat consumption. This decline will return the consumer to the level of the late 1960s. Although per capita consumption of meat has increased 21% since 1970, and 48% since 1960, the average Soviet citizen still eats only two-fifths as much meat as his US counterpart and three-fourths as much as the average Pole or Hungarian.

50. In addition, an expected downturn in egg and milk production from 1975 levels, albeit less severe, will further erode the quality of the Soviet diet. This decrease in the availability of livestock products will temporarily reverse the steady decline in the share of starchy staples in the average Soviet diet. Bread and potatoes currently account for one-half of the calories consumed (see Figure 4).

51. Domestic and imported feed supplies will not be sufficient to support livestock inventories at the 1 January 1976 level. Animals will be slaughtered at lighter-than-normal weights. Production of meat will therefore drop off during the first part of the year, and sporadic shortages in certain areas will occur. By spring, herds will be small enough to be supported by seasonal grazing and available feed. Meat production, however, will then be at its lowest level, and prolonged shortages of meat—especially in rural areas—will be common throughout the summer. Even as the 1976 crop becomes available, efforts to rebuild the average weight of animals to support breeding will keep meat production at depressed levels.

52. The USSR probably will import meat in 1976 to augment domestic supplies. Non-US meat supplies appear adequate to permit the USSR to buy at least one-half million tons, equaling 1975 purchases, and perhaps to double that amount. Purchases of one million tons – about as much as available Soviet port and storage

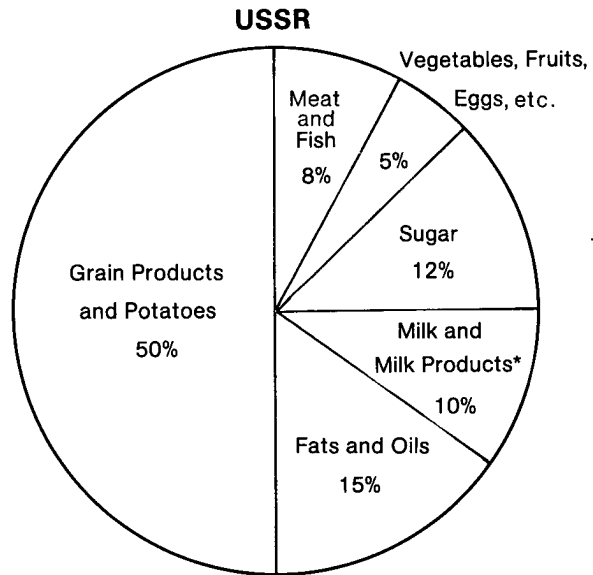
facilities could handle—would bolster per capita meat supplies by roughly 10% but would add about \$1 billion to the Soviets' already large import bill.

53. Other foods generally should be available. There should be no prolonged bread shortages even though the quality of bread will be lowered—as already seen in some markets—by increasing the extraction rate in milling grain into flour. Distribution failures will produce spot shortages, however, and supplies of flour at retail outlets will be generally limited. The effects of the 1975 short-fall in sugar beet production should be largely offset by stepped-up imports of sugar from Cuba and the Philippines. Similarly, although the output of sunflower seed fell in 1975, scheduled imports of soybeans and the availability of other oilseed crops should be sufficient to avoid vegetable oil shortages.

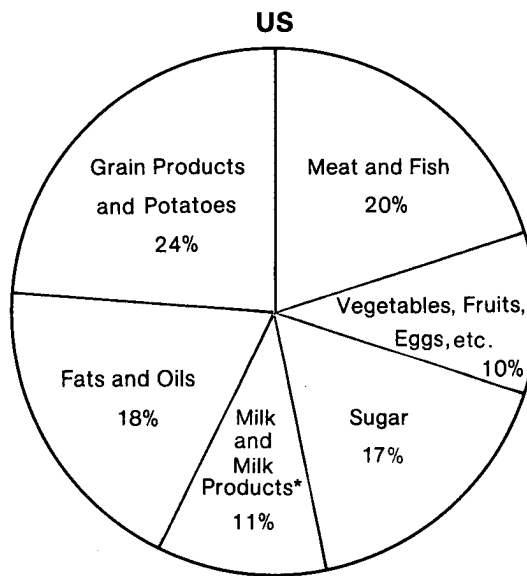
54. Consumer reaction to the expected meat shortages is difficult to predict. The Soviet people have traditionally accepted programs to build the military and boost industrial production as justifying a slow growth in living standards, but shortages and price increases stemming from Krushchev's agrarian policies sparked considerable civil discontent in the early 1960s. As of mid-May of this year, the Western press was reporting food shortages -- especially of meat -- work

Figure 4

Composition of Diets, 1974



3,250 Calories per day per person



3,350 Calories per day per person

**Excluding butter*

569244 4-76

slowdowns and vandalism in the markets as the people went beyond grumbling and other verbal manifestations of their discontent. The current Soviet leadership, however, has demonstrated its awareness that material incentives and rising living standards are crucial in the further development of a modern industrial state.

Foreign Trade

55. According to the 1976 plan, which calls for 13.6% growth in the ruble value of trade, the foreign trade sector will maintain its primacy as the most rapidly growing component of the Soviet economy. As in recent years, the actual rise in the value of trade this year could exceed this goal by a significant margin. In their hard-currency trade, the Soviets probably will run a deficit on the order of \$3 to \$5 billion.

56. Other than the chronic imponderable factor of possible large grain imports, the 1976 import picture is fairly clear. Imports from the West will continue to rise because of heavy deliveries from the \$8 billion of orders in plant, machinery, and equipment placed during the past two years. The grain bill will be about \$2.2 billion under existing contracts, and shipments of large-diameter pipe will remain substantial. A large and possibly rising volume of imports of chemical and petrochemical machinery and equipment will be realized in support of the leadership's effort to revitalize and modernize the industrial sector. On the export side, Soviet prospects are primarily dependent on the degree and pace of economic recovery in the West, which will determine the extent of the rise in demand for Soviet products, largely fuels and industrial raw materials.

57. Because sluggish economic recovery in the West will continue to be a constraining force, a sizable hard-currency trade deficit will develop again in 1976. The USSR, as a result, may have to resort to substantially more borrowing in 1976. With its solid credit rating, Moscow should not have any major difficulty in attracting loans, but it would prefer not to pay high interest rates on massive short- and medium-term loans, wishing to retain its flexibility in the event of further agricultural failures. In any event, the Soviets will end 1976 with a substantially higher external debt, although it will still be within manageable limits.

58. We believe the Soviets will continue to sell gold as they did through most of 1975, despite the decline from the record gold price of \$197.50 per ounce in 1974 to the current level of around \$130.00. Unless the Soviet hard-currency trade

position improves substantially, sales could approximate 150 tons—worth more than \$600 million at today's prices. Moscow could sell even more without disturbing its reserves and probably will if the price is right.

59. While equipment purchases contracted in previous years will keep 1976 imports high, Moscow is apparently reducing its planned cash outlays for nonmachinery purchases and for machinery orders when credit is unavailable. This effort will have little immediate effect on Soviet industrial production because of the long delivery periods for most machinery. We regard current attempts to reduce imports as temporary. The USSR's longer term policy of increasing imports of high-technology Western products apparently has not changed. Because of current hard-currency stringencies, however, the availability of attractive financing will be an increasingly important factor in determining where equipment orders are placed. US firms will be especially affected because US industrial exports to the USSR are financed primarily by high-interest credits. The Soviets are able to get most, if not all, needed equipment from third countries under long-term, low-interest credits. Soviet imports from the United States will remain high in any case, on the basis of continued US deliveries of grain, machinery, and equipment already ordered.

APPENDIX

US AND USSR: SELECTED ECONOMIC INDICATORS

	Unit of Measure	USSR 1974	US 1975 ¹	USSR 1975	USSR 1976 Plan
GNP	Billion 1973 US \$	722.8	1,256.2	N.A.	N.A.
Population, midyear	Millions	252.1	213.5	254.6	257.1
Per capita GNP	1973 US \$	2,867	5,880	N.A.	N.A.
Industrial production index	1970 = 100	124.7	106.5	132.5 ¹	138.2
Net agricultural production index	1970 = 100	106.2	112.9	96.8	N.A.
Bread grains ²	Million metric tons	79.3	58.6	60.8 ¹	N.A.
Feed grains ³	Million metric tons	90.3	163.9	58.4 ¹	N.A.
Potatoes	Million metric tons	81.0	14.3	88.5	N.A.
Meat	Million metric tons	14.6	21.5	15.2	N.A.
Total labor force ⁴	Millions	133.9	94.8	136.1	138.4
Nonagricultural ⁴	Millions	98.7	81.4	101.5	104.4
Agricultural	Millions	35.2	4.4	34.6	34.0
Total investment index ⁵	1970 = 100	128.8	N.A.	139.8	144.5
Per capita consumption index	1970 = 100	114.2	N.A.	117.1 ¹
Crude oil, including natural gas liquids	Million barrels per day	9.2	10.0	9.9	10.4
Natural gas	Billion cubic feet	9,200	20,100	10,215	11,053
Electric power	Billion kilowatt-hours	976	2,200	1,038	1,095
Coal	Million metric tons	684.5	584.8	701	715
Primary energy production	Million metric tons of coal equivalent	1,548	2,165	1,643	1,734
Crude steel	Million metric tons	136.0	105.9	141.0	147.0
Cement	Million metric tons	115.0	63.1	122.0	126.0
Copper, refined	Million metric tons	1.25	1.6	1.35	1.41 ⁶
Chromite	Million metric tons	1.56	N.A.	N.A.
Manganese ore	Million metric tons	8.5	N.A.	N.A.
Iron ore	Million metric tons	225.0	82.6	233.0	N.A.
Phosphate rock	Million metric tons	24 ¹	44	25 ¹	N.A.
Automobiles	Thousand units	1,119.4	6,713.0	1,201.0	N.A.
Trucks and buses	Thousand units	726.9	2,272.2	763.0	N.A.
Electric generators	Thousand kilowatts	16,000	N.A.	17,100	N.A.
Machine tools, metal cutting	Thousand units	226.0	78.0	232.0	N.A.

	Unit of Measure	USSR 1974	US 1975 ¹	USSR 1975	USSR 1976 Plan
Instruments and measuring equipment	Million rubles, 1967 prices	3,798	N.A.	4,300 ¹	N.A.
Computers and calculating machines	Million rubles, 1967 prices	2,221	N.A.	2,800 ¹	N.A.
Refrigerators	Thousand units	5,426	4,577	5,600	N.A.
Washing machines	Thousand units	3,075	4,228	3,300	N.A.
Radios	Thousand units	8,753	34,516	8,400	N.A.
Television sets	Thousand units	6,569	10,637	7,000	N.A.
Vacuum cleaners	Thousand units	3,319	7,640	N.A.	N.A.
Sewing machines	Thousand units	1,366	N.A.	N.A.	N.A.
Gold production	Thousand troy ounces	8,841	1,030	9,902	N.A.
Imports, f.o.b.	Million US \$	24,861	96,140	37,900 ¹	N.A.
Exports, f.o.b.	Million US \$	27,374	107,191	32,600 ¹	N.A.

1. Preliminary.
2. Wheat and rye.
3. Corn for grain, oats, barley, and pulses.
4. Including armed forces.
5. New fixed investment.
6. Calculated from five-year-plan data.