

STANDARD FORM NO. 64

Approved For Release 2000/08/23 : CIA-RDP62S00545A000100020120-1

Office Memorandum • UNITED STATES GOVERNMENT

TO : AD/RR
DD/I and DAD/CI
25X1A9a

DATE: 8 July 1958

FROM : [REDACTED]

SUBJECT:

25X1A5a1 A "net evaluation: you may find of interest. It is a part
of a confidential document prepared by the economist for
the [REDACTED] and circulated to that company's
president and board of directors.

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COMMENT*

25X1A5a1 Within the next five to ten years there is a substantial possibility that the USSR will overtake the United States in many areas of science and technology, and their military applications. Some experts [REDACTED] for example) believe nothing we can do at this time can prevent this from occurring. He claims that "ten years from now the best scientists will be found in Russia...I am not saying that this will happen unless we take this or that measure, I am simply saying that it is going to happen." Some experts believe there is still a chance for the United States to stay abreast by making determined long-range commitments to train people, and build universities, laboratories and institutes on a grand scale. [REDACTED] probably the most qualified man in this country to make such an evaluation, believes this.

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On the production front, there is virtual unanimity among experts on the current status of the U. S. - USSR economic competition. Soviet industrial production in 1956 was about 40% as large as that of the U. S. But Soviet investment in heavy industry is proportionately larger than our own and the output of specific industries has now approached ours. During much of the post-war period the USSR has produced more, and in 1958, probably twice as many machine tools as the United States. Soviet output of coal in 1958 will about equal U. S. production. Russia's steel capacity is now 50% of that of the United States, and her steel output in the first half of 1958 will be about the same as our own.

In 1957, Soviet investment in the electric power, metallurgical base, and producers' goods industries (in real terms) was very close to our own. In 1958 this investment will undoubtedly exceed ours. As a result, the Soviet economy (GNP) is expected to continue to grow, through 1962, at a rate about twice that of the U. S. economy. Annual growth of industrial production alone is expected to continue at 10% to 12%, as compared to the U. S. 1950-55 rate of 4.4%.

The USSR now produces about 25% to 30% as much crude petroleum as the United States. She will probably produce one-third of our output in 1958.

* This does not purport to cover the whole range of U. S. - Soviet economic competition. For example, agriculture and consumer goods, and the resulting standard of living of the people, in which areas the U. S. has a commanding and perhaps widening lead, are omitted from consideration.

Approximate comparative average annual rates of growth in crude production are:

<u>Years</u>	<u>U. S.</u>	<u>USSR</u>
1928-55	3.8%	6.9%
1950-55	4.7%	13.3
1955-60	2.0 to 3.0%	13.8 (Est.)

Khrushchev has announced that the USSR intends to reach current U. S. petroleum output by 1972 and experts believe this goal is not unreasonable. Current annual domestic Soviet consumption is probably in the neighborhood of 800 million barrels. Commenting on Soviet export capabilities in 1972, Allen Dulles recently made this point, "Even allowing for substantial increases in domestic consumption, they could export about 2 million barrels a day. Today, all of Western Europe consumes about 3 million barrels". The USSR is already a major factor in the international export markets for aluminum and certain other non-ferrous metals and ferro-alloys.

Barring rapid, substantial changes in the amount and direction of United States industrial and educational investment programs, and assuming the USSR continues its present proved rate of scientific, technological and industrial growth, a time table such as the following is probable:

by 1965: USSR would overtake us in many major fields of scientific and technical research and development. These include most fields having important military applications.

by 1970: USSR would begin to cut the absolute gap between their own and U.S. output.

by 1975

- 1980: USSR would reach or surpass the U. S. in output of many major industrial goods.

To allow any dictatorship to achieve such goals would mean great danger to the U. S. If, for example, the USSR had such power now, our political and economic dominance in the Middle East would be severely challenged.

The possibility of internal revolt making the Soviet goals unattainable appears to be remote. As a consequence, our hope for continued superiority in science, technology, and heavy industry, if this is thought to be a necessary element of national policy, lies in increasing, at a very rapid rate, our own investment and efficiency in those spheres.

In my opinion, there is great doubt whether this will be done without Federal stimulation and guidance. I have in mind specifically the possibility that our present degree of reliance on consumer direction of investment, already limited by Federal consumption of 12% of our national product, will have to be further modified in order to insure that a larger share of our national production is invested rather than consumed. This, of course, implies an increasing degree of Federal direction of use of manpower and of education resources. This would be distasteful, but should not prevent consideration of the possible necessity of such a reorientation of our investment goals, and the methods of achieving these goals without loss of economic and political freedoms.

In my opinion, at the present time, part of the necessary re-orientation of investment could be accomplished through substantial increases in Federal expenditures on education, research, and development, within the framework of the free enterprise system. To prevent inflation, this would necessitate an increase in taxation, but this would have to be delayed until such time as the current recession is clearly ended. If, however, such steps are long delayed, and the USSR is permitted to match us in overall industrial strength, as they have already in flow of military assets and industrial investment, I believe that in the 1970's mobilization of our economic resources under strict Federal control might be demanded in the face of the threat to our national security.