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11 March 1974

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MEMORANDUM FOR:

[Redacted]

USSR and Eastern Europe

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THROUGH:

: Director of Economic Research

SUBJECT:

: Support for Secretary Kissinger's  
Trip to Moscow

Attached are an original and two copies of  
U/SR's contribution covering the 1974 economic  
outlook in the USSR. If you have any questions  
concerning the contribution, please call [Redacted]

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[Redacted]

Acting Chief  
USSR/Eastern Europe Division

Attachment:  
As stated

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Soviet Economic Outlook for 1974

S-5982

(Support for Secretary Kissinger's Trip to Moscow)

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USSR Branch  
11 March 1974

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Soviet Economic Outlook for 1974

The USSR's economic growth is expected to subside somewhat in 1974. Last year's record agricultural performance will be hard to match although industry will have the benefit of a larger flow of raw materials from Soviet farms.

-- The increase in gross national product, assuming an average weather year in agriculture, probably will be about 5%, compared with almost 8% in 1973 (Table 1).

-- Farm output will grow, but by much less than in 1973 when exceptionally good weather resulted in fine harvests of grain, potatoes, cotton, and other crops. A leveling off or decline in crop production should be more than offset by sizeable gains in the livestock sector.

-- Industry should do better in 1974 than in 1973, partly on the strength of a marked improvement in supplies of farm products like meat, milk, cotton, and vegetable oil. Although continued shortfalls in meeting energy targets are expected, shortages of fuel are not expected to prove to be an industrial bottleneck.

Encouraged by the economy's performance in 1973 after two lackluster years, the leadership seems to be planning no major policy initiatives. The emphasis continues to be on bolstering agriculture and on raising productivity.

-- The distribution of investment resources will again favor agriculture.

-- Intermittent rumors of pending changes in the system of economic management have been vague as to the substance of proposed reforms. The economic reforms introduced since 1965 have had little effect, and a suspicion of decentralized decision-making deters radical experimentation.

-- The leadership, as a consequence, hopes to spur productivity by gaining greater access to Western technology. It believes that its bargaining power in this respect has increased as a result of the changed position of raw material producers in the world.

The gradual growth in defense spending evident since 1969 is likely to continue in 1974, despite the announced cutback in the budget allocation for defense. Indeed, the programs can be accommodated within a slowly rising total budget by redistributing funds among competing systems.

After persevering with its consumer-oriented policies through the difficult years of 1971 and 1972, the Politburo this year will be able to point to some tangible improvements in consumer welfare. Supplies of unprocessed foods such as fruit and vegetables began to improve in the last half of 1973.

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Last year's record grain harvest is bound to result in a sizeable growth in the availability of meat, milk, and eggs in 1974. Meat was particularly short in 1973 as the leadership directed a determined and successful campaign to expand livestock herds. Soviet consumers can also count on pronounced gains in production of soft goods and consumer durables. Car ownership is becoming a serious possibility for the average Soviet citizen.

Moscow's foreign trade position should improve considerably because of substantially higher prices for its exports of oil and reduced outlays for grain.

-- Soviet imports from the Developed West will probably fall by about 10% in 1974. The USSR's exports to the Developed West should rise by 40-50%.

-- The USSR should be able to meet its export commitments for oil. It may fall somewhat behind in deliveries of gas to Western Europe because of technical problems.

-- To pay for imports from the West, the USSR will not be forced to sell gold as in the past two years. Some sales are likely, however, to take advantage of current high prices.

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-- Last fall's record grain harvest, coupled with deliveries on 1972 purchases, allowed the USSR to rebuild stock and export some grain to non-Communist countries. Nevertheless, the expected heavy requirements for livestock feed in 1974 will incline the leadership to buy more grain this year to avoid exposing their meat program to the vagaries of this year's weather. The size of these purchases will depend on world prices as well as the policy toward increasing reserve stocks.

Table 1

USSR: Post-Khrushchev Rates of Economic Growth

	Percent			
	Average 1965-70	<u>1971</u>	<u>1972</u>	<u>1973</u>
Gross national product	5.7	4.2	1.7	7.7
By producing sector				
Agriculture	4.7	0.3	-7.2	15.0
Industry	6.4	6.0	5.2	5.9
Other	6.0	5.5	4.9	4.9
By major end use				
Per capita consumption	5.7	3.4	0.9	3.6
Investment	7.5	8.2	7.6	5.2
Defense	2.5	-1.1	1.1	2.7

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