

OCA FILE

JEC

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Richard Kaufman
Joint Economic Committee
Dirksen Senate Office Building, Room G01
Washington, D.C. 20501

Dear Richard:

I thought I should provide you with a written copy of the information we discussed yesterday over the telephone. In response to your question about the level of effort the CIA devotes to estimating Soviet GNP, we have calculated that roughly four-fifths of the total value of GNP is based on data published regularly in official Soviet statistical handbooks. The other one-fifth of GNP is estimated using data pieced together, with additional effort, from Soviet journals and monographs, and, in some cases, from intelligence sources. These shares of regularly published data and more scattered information are the same for our estimates of both base-year GNP and year-to-year changes.

I am also enclosing a copy of our earlier suggestions on points you may want to include in the Committee's introduction to the paper on Soviet GNP. If you need any more material, please let me know. Meanwhile, I hope the GPO presses run smoothly and the backlog disappears quickly.

Sincerely,



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Enclosure

Points to Make in Letter(s) of Transmittal

This study, Measures of Soviet Gross National Product in 1982 Prices, was prepared by the Central Intelligence Agency at the request of the Joint Economic Committee. The paper was drafted by [redacted] who benefited from the advice and comments of many of her CIA colleagues.

This study presents comprehensive estimates of Soviet economic performance since 1950 and describes the derivation of these estimates. It updates and supplements the 1982 volume, USSR: Measures of Economic Growth and Development, 1950-80, which also was prepared by the CIA and published by the JEC. The present numerical estimates cover the years 1950-87 and include an update of the ruble price base from 1970 to 1982.

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Points to Make in Foreword

Gorbachev's credibility has become increasingly dependent on his ability to improve the functioning of the Soviet economy, and especially the population's standard of living. The measurement of progress toward these goals also has become increasingly important, but official Soviet summary statistics on economic growth have long been considered unreliable by Western specialists. Over the years, the CIA's estimates of Soviet GNP growth have become widely accepted as an alternative to those official statistics.

Since Gorbachev assumed power in March 1985, he has sought to revitalize the Soviet economy by strengthening worker discipline, modernizing production technology, and introducing decentralizing reforms. But overall economic growth in 1986-89 has been about as slow as it was during the 1981-85 "stagnation period," and in many ways economic difficulties have mounted.

Consumers have become increasingly impatient with the limited availability and low quality of goods and services.

A serious budget deficit has developed, partly because of higher investment spending for Gorbachev's modernization drive and a sharp drop in tax revenues resulting from his antialcohol campaign.

Inflation rates--traditionally low by world standards--have increased sharply in 1988-89.

Meanwhile, thanks largely to glasnost, Soviet criticisms of the USSR's official statistics have become increasingly sharp.

Early in 1987, economic journalist Vasiliy Selyunin and economist Grigoriy Khanin captured national attention by publishing estimates of overall economic growth that were much lower than official figures.

Two years later, an article in the official journal of the Communist Party charged the State Committee for Statistics with excluding a sharp drop in legal production and sales of alcohol--as a result of Gorbachev's sobriety campaign--from several summary measures of economic performance.

In July 1989, the Soviet leadership dismissed Mikhail Korolev as head of the State Committee for Statistics and appointed Vadim Kirichenko as his successor.

For many years, the CIA has devoted a large research effort to estimating the size and growth of Soviet GNP. These estimates have several objectives:

To remedy the shortcomings of official Soviet summary statistics.

To estimate key aspects of Soviet economic performance for which official data are not regularly published, partly because of reluctance to reveal sensitive or embarrassing information.

To replicate as closely as possible the measures familiar to users of the economic statistics of the United States and other Western countries.

In the last few years, some critics have argued that the CIA's estimates of Soviet GNP growth are understated, while others have maintained that growth is overstated. The CIA believes that its estimates of total GNP growth are reasonably accurate, partly because errors in opposite directions offset each other to some extent. Certain components of GNP growth are not estimated as accurately as the total, however, and efforts to improve those estimates are under way.

In publishing this study, the JEC seeks to make the CIA's estimates of Soviet GNP available to a wide audience, to promote an understanding of the derivation of these estimates, and to stimulate discussion of possible improvements in methods of estimation.

The present paper updates and supplements the 1982 volume, USSR: Measures of Economic Growth and Development, 1950-80, which also was prepared by the CIA and published by the JEC. The numerical estimates here cover the years 1950-87 and update the ruble price base from 1970 to 1982.

The JEC also conducts annual hearings on the allocation of resources to defense in the Soviet Union and periodically publishes collections of papers by a variety of academic and government specialists on the Soviet economy.

The CIA's estimates of Soviet GNP are prepared by a core group of full-time analysts, whose efforts are supplemented by detailed research on various aspects of the economy, such as agriculture, energy, and high-technology industries. In large part, these estimates are based on detailed data published in official Soviet statistical handbooks. Because the official data are incomplete, however, additional information must be pieced together from Soviet journals and monographs and, in some cases, from intelligence sources.

About $\frac{4}{5}$ of the total value of GNP in the base year (1982) is estimated from data published in official handbooks, while the rest comes from information pieced together from other sources.

About $\frac{1}{5}$ of the value of the samples used to estimate year-to-year changes in GNP is based on regularly published official data.