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ST/PC
30-43

2 February 1957

MEMORANDUM FOR: Deputy Director, Intelligence

SUBJECT : Over-All Growth of the Soviet Economy in 1956

Over-all growth of the Soviet economy in 1956 was consistent with the 1960 goals but a few key industries were lagging slightly. Aided by the exceptionally good agricultural year, a 12 percent increase in national income was reported. Total industry increased almost 11 percent, heavy industry 11.4 percent, light industry 9.4 percent. Growth of all industry and of producer goods was about one-half of one percent above, and light industry the same amount below, the annual averages required to meet the 1960 goals. Capital investment showed a substantial increase but changes in reporting categories make precise evaluation impossible at this time. It is clear, however, that misdirection of investment resources and construction lags were primarily responsible for the production shortfalls in coal, ferrous metals, and cement. The increase both in the number of workers and employees and of the industrial labor force suggests a labor force gain from demobilization. Industrial labor productivity in 1956 reportedly increased only 7 percent, which is well below the average of 8.5 percent required. The inclusion for the first time of some 600,000 cooperative employees in the labor force is, however, partially responsible for the low growth rate in productivity. Owing to the good agricultural year the supply of foodstuffs improved considerably. Prices in state stores remained stable but collective farm market prices reportedly declined. The increase in retail trade probably absorbed most of the increased purchasing power of the population.

Soviet Economic Growth

Percent Increase Per Year

	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1955</u> <u>1950</u>	<u>1956</u> <u>1955</u>	<u>1960 Plan</u> <u>1955</u>
National Income -	12	11.6	8.8	12.5	9.8	68.	12	60
Industry: Total -	16	12.1	11.5	13.8	12.1	85	11	65
Heavy Industry -	17	12	11.4	13.7	15.1	91	11.4	70
Light Industry -	16.0	10.3	12.5	11.3	8.0	76	9.4	60

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INDUSTRY

PRODUCER GOODS

Progress of heavy industry was uneven and problems appeared in key, mutually interdependent, industries which have almost invariably met the plan in the past. Total coal production was only a shade under the plan at year's end but quality declined as the share of lignite production increased. Crude steel, rolled steel, and pig iron were about 2 percent short, owing to a combination of tight ore supplies and failure to complete new blast furnaces, rolling mills, etc. Cement represented the most serious failure: about 8 percent or 2 million tons below plan. Petroleum, natural gas and electric power production were on schedule but energy supplies on the whole continued very tight. Satisfactory to good progress was reported in a number of important non-ferrous metals but it appears that production of copper and some of the newer light metals was less than required.

Progress of machine building industries continued generally good, but also with some important exceptions. The automation program and production of metallurgical, petroleum drilling and refining, and chemical equipment seem to be lagging. Production of diesel and electric locomotives is above plan, and while there were complaints about underfulfillment in production of agricultural machinery, the increases reported were very substantial. With the exception of electric motors, output of electrical equipment and electronics continues to grow rapidly according to plan.

Output Trends - Selected Basic Industries

<u>Commodity</u>	<u>1950</u>	<u>1955</u>	<u>1956</u>	<u>1960 Plan</u>
Pig Iron (Million Metric Tons)	19.2	33.3	35.8	53.0
Crude Steel (Million Metric Tons)	27.3	45.3	48.6	68.3
Rolled Steel (Million Metric Tons)	20.9	35.3	37.8	52.7
Cement (Million Metric Tons)	10.2	22.5	24.9	55.0
Electric Power (Billion Kwh)	91.2	170.1	192.0	320.0
Coal (Million Metric Tons)	261.1	391.0	429.0	593.0
Crude Oil (Million Metric Tons)	37.9	70.8	83.8	135.0

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CONSUMER GOODS

Production of processed foodstuffs, textiles, footwear, and a number of durables generally showed substantial increases. Two items which bulk large in Soviet consumption were unsatisfactory; cotton textiles, which showed the effect of the low 1955 harvest, and furniture, which probably was hampered by the extremely tight supply of timber products.

Production Of Selected Consumer Goods

<u>Item</u>	<u>1950</u>	<u>1955</u>	<u>1956</u>	<u>Plan 1960</u>
Cotton Textiles (Million Meters)	3899	5904	5500	7270
Watches and Clocks, All Types (Million Units)	7.6	19.7	22.6	33.6
Canned Goods (Millions of Con- ventional Cans)	1535	3223	3600	5580
Footwear (Million Pairs)	225.8	299.0	314.0	455.0

CAPITAL INVESTMENT

The plan for capital investments was fulfilled by 94 percent, with failures in construction for the coal industry, construction materials industry, and housing mainly responsible for the underfulfillment. Production shortfalls in these sectors and in ferrous metallurgy are largely explained by considerable underfulfillment of the plans for putting new facilities into operation in 1956. Construction of electric power stations was also below plan, but by concentrating on plants scheduled for completion at the expense of new construction, the Ministry met the plan for new electric power capacities. Although a change in coverage of investment statistics makes analysis difficult, the announced 17 percent increase in the volume of investments represents a considerable increase and is in accord with 5 year targets. However, the 1956 results indicate that the 1956-60 investment program is so tightly scheduled that any miscalculations in specific industrial construction requirements will jeopardize fulfillment of production targets. The modest housing goal for 1956 was underfulfilled by about 10 percent; only 13 percent of the state housing planned for 1956-60 was built in 1956. The shortage of building materials in the economy will be a serious obstacle to a significant increase in housing construction in 1957.

1956 Soviet Investment and Construction

A Preliminary Interpretation
of Investment Data Reported:

	<u>1955</u>	<u>1956 Pl.</u>	<u>1956</u>
Total Centralized Capital Investments	139	161	-
Total Decentralized Capital Investments	11	(13)	
Total	150	(174)	
Residual, Possibly Modernization Expenditures	(9)	(24)	
Total State and Cooperative Investments Including Modernization; Expenditures(?) and Excluding Kolkhoz Investments	<u>159</u>	<u>198</u>	<u>186</u>

Housing Construction*

	<u>1956 Pl.</u>	<u>1956 Act.</u>	<u>5th FYP Pl.</u>	<u>6th FYP Pl.</u>
State Urban	29	26	105	205
Private "***	<u>(10)</u>	<u>10</u>	<u>39</u>	<u>75</u>
Total	(39)	36	145	280

*Millions of sq. m. of total space.

**Including cooperatives.

PRODUCTIVITY

Productivity in the construction industry in 1956 maintained the high rate of increase of 10 percent shown in 1955. The change in the wage structure at the beginning of 1956, intensifying the incentive character of the wage system and "improving labor discipline", was partially responsible for the maintenance of this rate. The rate was well above the required annual average for the 6th FYP and the actual average for the 5th Five Year Plan despite the shortened week.

At the same time the rate of increase in industrial labor productivity of 7 percent was below the 1955 rate of 8 percent. It also failed to attain the average annual increase required by the 1960 goal of 8.4 percent. The inclusion of the members of cooperative artels in the numbers of workers and employees probably depressed the industrial productivity figure and may cause a revision in the plan goal. Improvement in the rate of increase in industrial productivity may be expected as the reorganization of the wage structure widens to include more of the industrial sector, where it began on an experimental basis only late in 1956, and as the rather large increment in employment in 1956 becomes assimilated.

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Labor Productivity In The USSR: Annual Increases 1950-1956,
And Implied Annual Average Increases For Fifth and Sixth Five-Year Plan
Periods

	<u>Industry</u>	<u>Construction</u>
	<u>Increases Over Preceding Year (In %)</u>	
1951	10	10
1952	6	6
1953	7	4
1954	6	8
1955	8	10
1956	7	10
	<u>Annual Average Increases (In %)</u>	
1950-1955 (actual)	7.4	7.6
1956-1960 (plan)	8.4 ^{1/}	8.7

^{1/} Based on 1960 goal planned for industrial labor force probably exclusive of members of industrial cooperatives.

LABOR FORCE

The increment to workers and employees in the national economy in 1956 was 2.1 million, or 1 million more than 1955. The book-keeping transfer of 600,000 producer cooperatives artel members accounts for part of this increase. Part of the remaining difference is probably attributable to demobilized service men entering the ranks of workers and employees during 1956. The total difference between the 1955 and 1956 increments is reflected exactly in the increments to the "productive" branches of the economy, state industry, construction, state farms, transportation, and communications. The increase in these branches in 1955 was 0.7 million and in 1956, 1.7 million.

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Total And Annual Increases In The Number of Workers
And Employees In The USSR 1950-56 and 1960
Plan

(End of Year^{1/} in Millions)

<u>Year</u>	<u>Total</u>	<u>Increment</u>
1950	39.8	
1951	41.4	1.6
1952	42.5	1.1
1953	44.6	2.1
1954	46.8	2.2
1955	47.9	1.1
1956	50.0	2.1 ^{2/}
1960 (Plan)	55.0 ^{3/}	6.6 ^{4/}

^{1/} 1960 Plan goal is average annual employment.

^{2/} 600,000 producer cooperative artel members were transferred to state employment and appear for the first time as workers and employees.

^{3/} This is an average annual goal for 1960. A comparable year-end figure, assuming the same relationship as in 1954-55, would be about 54.5 million.

^{4/} This is an average annual increment over 1955. In the last two years of the 5th Five Year Plan, the annual increments for average annual and year-end employment were the same.

AGRICULTURE

The fulfillment announcement points up 1956 as the best agricultural year of the Soviet era even though agriculture remains a chief deterrent to future long-run economic growth. Last year's achievements are attributable to the new lands program, changes in crop pattern, higher delivery prices--all "Khrushchevian" policies--and luck in weather. Primarily because of extensive use of virgin lands--30 million hectares cultivated since 1953--the grain harvest reportedly increased by 20 percent over 1955 and state acquisitions thereof by 35 percent. Intensification of corn cultivation in established regions stepped up the number of cattle and meat and especially milk production and procurements. Output of industrial crops, including cotton, continued to increase. Potatoes were up but vegetables down.

Higher prices since 1953 for state requisitions reinforced the growth in farm and farmer incomes: (1) Collective farm income more than doubled from 1952 to 1956; (2) money wages from collective farms to farmers doubled from 1952 to 1955 and probably rose in 1956 by 25 percent--all advances larger than those of workers and

employees. As an offset to income levels, however, capital goods for farms and consumer goods for farmers may not have been supplied in sufficient volume to achieve maximum incentive effects.

While the new policies have incorporated radical changes in land use, delivery price rates, and investment, they all have the conservative aim of refurbishing the collective farm system; and the free market remains a basic source of foodstuffs supply to the urban population. Although private livestock rose again in 1956, the share of free market sales in farmers' incomes has declined, and for the first time, in 1956, was probably exceeded by wage payments from collective farms. State farms' achievements in virgin lands encourage the prospect that collective farms there may be converted to state farms, but such a transformation in established regions seems out of sight.

Output And Deliveries Of Grain And Milk
Selected Years
(millions of metric tons)

GRAIN

	<u>Output</u>	<u>Deliveries</u>
1953	80.0	37.3
1955	103.0	39.8
1956	123.6	54.0
1960 (Plan)	180.0	--

MILK

	<u>Output</u>	<u>Deliveries</u>
1953	27.5	--
1955	30.1	13.5
1956	34.7	17.3
1960 (Plan)	58.0	--

CONSUMER WELFARE

The report claims substantial improvements with, the exception of housing, in the material well-being of individuals of all groups in Soviet society. The average Soviet citizen probably noted improvements in 1956 in his material well-being exceeding those noted in the fairly stagnant situation of 1955. Generally, the urban dweller has been the recipient of "fringe" benefits while increases in income have gone to the rural population. Difficult as it is to rank relative gains, rural improvement in 1956, as in 1955, exceeded that of the urban dweller.

The report stresses these "fringe" benefits primarily directed to urban industrial workers in 1956: increased pensions, expansion of free educational opportunities, improved conditions and hours of

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work. Average wages of workers and employees (mostly urban) increased 3 percent; peasant income "in money and in kind (in comparable prices)" increased, on the other hand, by 12 percent. Prices in state and cooperative trade seems to have remained steady during 1956, with the claimed drop of 10 percent in kolhoz market prices probably resulting from the year's bumper harvests.

Availabilities of consumer goods and services seem to have improved at a slightly greater rate than during 1955. Output of industrial consumers goods increased by 9.4 percent, slightly more than in 1955; the increase of retail sales in the state and cooperative networks by 9 percent was better than double that of the preceding year, but still lagged behind other major growth indexes of the Soviet economy. Food availabilities seem to have been relatively good--as indicated by the harvest; clothing availabilities (with the exception of cotton cloth shortfalls connected with a short cotton crop in 1955) seems to have been fair; and other non-food items seem to have shown generally high increases but probably less than in the recent past.

TRANSPORT

Transportation of freight in the USSR does not appear to confront the leadership with a major economic problem for the present five-year plan period. The report mentions continued dissatisfaction with increases in shipment of timber, but it fails to mention coal and oil shipping shortcomings that had been cited during 1956 at the Party Congress.

USSR aggregate freight turnover expanded in 1956 at a rate slightly above that for total industrial output, but at an increase slightly below that for 1955. Railways, providing the bulk of freight transport, maintained a rate of increase which also slightly exceeded growth of total industrial production. The ocean fleet and auto transport expanded more rapidly, thus increasing by a small amount their share of total freight turnover. But the river fleet increase was about half that of 1955, showing a marked lag.

If sustained throughout the present five-year plan period, these growth rates imply fulfillment of the 1960 overall transport targets. River transport would show a large shortfall, however. And, despite the high growth rate of auto transport, it must increase even faster if it is to meet its extremely high 1960 goal.

PROBLEMS AND PROSPECTS

The results of 1956 plan fulfillment show continuation of the rapid tempo of growth. At the same time, an incipient threat to the 1960 goals is indicated because of difficulties in certain key basic materials industries, capital construction, apparent less than adequate growth of labor productivity, and rising pressures for more housing. At year's end the Soviets had moved to solve these problems by putting Pervukhin's special committee at the head of the Short Range Planning Commission and giving it extensive operational responsibilities to rephase the industrial capital investment program and to improve the performance in housing construction. Furthermore, the committee also has

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responsibilities for executing the new wage reforms. Much will depend upon the success of Pervukhin's committee in adjusting the investment program, finding ways to increase housing in face of shortages of building materials, and maintaining tight control over the use of scarce energy and metals. There is no doubt that a large potential for increasing efficiency still exists throughout most of the economy. On the other hand, fortuitous weather conditions may well have made 1956 the peak agricultural year of the Sixth Five-Year Plan. Growing investment commitments to agriculture and higher delivery prices mean that agriculture will be a rising cost to the state, offering competing priorities with other sections of the economy. Furthermore, the workers' reaction to the improved supply of foodstuffs, the new social welfare and wage measures, and whatever housing that may be provided, is problematical, but will be an important factor in maintaining the growth tempo.

ASSISTANT DIRECTOR
Research and Reports

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