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MEMORANDUM FOR: Deputy Director/Intelligence

SUBJECT: Soviet Mid-Year Economic Report

I. Summary

The progress of Soviet industry reported in the mid-1957 Plan fulfillment report is somewhat better than expected, reflecting additions to the labor force from demobilization and no significant deleterious effects from the industrial reorganization. According to the official report, industrial production increased 10 percent in the first six months, compared to the modest 1957 plan of 7.1 percent, and correspondingly large increases were reported for producer (11 percent) and consumer (eight percent) goods.

Nevertheless, the report has an optimistic tone which is not fully justified on balance. Although monetary allocations to capital investment and to housing construction are running well ahead of schedule, completion of physical productive capacity is still behind the modest 1957 schedules in rolling mills, coal, iron ore, and electric power while completion of housing is well behind planned goals. Again, production of coal and cement has shown a marked improvement thus far in 1957 but production is still lagging in ferrous metals, timber, probably in copper, and is just barely satisfactory in electric power. Difficulties in ferrous metallurgy are highlighted by a 10 percent drop in the production of metallurgical equipment, probably due to difficulties in producing rolling mill equipment. New capacity in iron ore production is still lagging in the face of tight domestic supply and commitments for increased export to the Satellites.

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TABLE 1
 PRINCIPAL INDICATORS OF ECONOMIC GROWTH
 (Percentage Increases)

	1956 First Half		1956 Over 1955		1957 First Half		1957 Plan		Approximate Annual Rate of Increase 1958-60 Required for Original 1960 Goals**
	Over 1955 First Half	1956 Over Plan	Actual	1956 First Half	Over 1956 First Half	Over 1956	Over 1956		
Industrial Pro- duction	12	10.5	10.7	10	7.1	10.6	10.6		
Producer Goods			11.4	11	7.8	11.1	11.1		
Consumer Goods			9.4	8	5.9	10.7	10.7		
Industrial Pro- duction* Cost	4.2	5.4	3.4	1.8	2.8	4.0	4.0		
Major Productivity	8		7	6	5.4	10	10		
Industry	10		10	8	8.5	9.4	9.4		
Construction	10		17	12	8	8.5	8.5		
Capital Investment		15							

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*Percentage Decrease
 **Assumes that full year 1957 rate of increase will be the same as half year.

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The report does little to clarify the Soviet intentions as to 1960 industrial production goals. The strong note of optimism in the report may indicate Khrushchev's desire to maintain the goal of a 65 percent increase in industrial output from 1955 to 1960, while simultaneously trying to catch up with the US in per capita production of meat and dairy products. Because the natural increment to the labor force in the next three years will decline sharply and because little has been accomplished in making up the capacity shortfalls in basic industries, the original 1960 goals will be very difficult to achieve.

The industrial labor productivity goal for 1960 is now clearly out of the question. On the other hand, the increment to the labor force from demobilization thus far has largely offset the low growth of productivity. In light of declining natural increment to the labor force, further demobilization or drastic reallocation of labor to industry from other sectors will be required to offset future slow growth of productivity.

While substantial gains in agricultural output were reported for the first six months of 1956, increases for the full year are expected to be substantially lower. The most interesting trend in agriculture was the unprecedented growth in the number of state farms, suggesting that a program for limited conversion of collective farms to state farms may be in the offing. The objective of such a program would be to increase output by converting backward collective farms into state farms. However, this apparently implies an increase in total agricultural investment. If this is accomplished, labor could be released for industry toward the end of the current plan.

II. Industry

As in 1956, the generally favorable trend in overall industrial production during the first six

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TABLE 2

TRENDS IN BASIC MATERIALS AND ENERGY PRODUCTION
(Percentage Increases)

	1956 First Half Over 1955 First Half	1956 Over 1955	1957 First Half Over 1956 First Half	1957 Plan Over 1956	Approximate Annual Rate of Increase Required for Original 1960 Goals*
Steel	8	7	4	6.0	12.8
Pigs Iron	9	7	3	6.4	11.2
Rolled Metal	7	7	6	4.5	10.1
Coal	10	10	8	6.5	8.6
Petroleum	19	18	17	16	11.8
Electric Power	14	13	8	10	15.5
Cement		11	18	14	23.1
Timber		4	4		7.5

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*Assumes that full year 1957 rate of increase will be the same as half year. This probably is a pessimistic assumption in most cases.

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months in 1957 was in sharp contrast to continued difficulties in the basic materials industries. Steel production increased only four percent and pig iron only three percent, compared to the very modest plans for the entire year of about six percent for both commodities. Electric power production was also behind schedule, and there were implied underfulfillments in copper and timber production. Coal and cement showed marked improvement and were ahead of 1957 plan schedule while crude petroleum, as usual, met the planned targets.

The 1957 plans for additions to capacity in coal, iron ore, rolled steel and electric power continued behind schedule. Underfulfillment of iron ore capacity is particularly serious in view of the domestic shortage of pig iron and increased export obligations to the Satellites. In the face of the extremely short supply of metals, the reported increase of 13 percent in machine building and metal working (which accounts for about 50 percent of gross industrial output) was very surprising, suggesting that inventories are not being built up to normal levels as planned. It is difficult to see how the overall growth rate of the first half year can be maintained unless there is a very rapid increase in output of ferrous and non-ferrous metals in the next six months.

Trends in the machine-building industries were very similar to last year. Although some improvement occurred there were still serious lags in production of capital equipment for basic materials industries such as metallurgy and electric power. There was a striking decline of 10 percent in the production of metallurgical equipment. Production of transport and agricultural machinery and equipment continued to increase rapidly. No mention of the ambitious program for production of automation equipment was made, suggesting continuing difficulties.

Output of many consumer durables continued to rise rapidly, but the base, of course, is still

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small. Production of many processed foods increased rapidly, as a result of the exceptionally large harvest last year.

III. Investment

Although the volume of capital investments during the first six months of 1957 increased by 12 percent over the volume in the first half of 1956, completions in housing and basic industries were underfulfilled. In housing, completions for the first six months of 1957 are running as far behind schedule as the first half of last year despite the fact that the volume of housing construction activity has increased by 39 percent in comparison with the first half of 1956.

Planned completions of new production capacities have been fulfilled or overfulfilled for crude steel, pig iron and several consumer goods industries. However, planned new capacities in other vital branches of industry were again underfulfilled as in 1956. Underfulfillments occurred in plans for construction of new capacities for rolling mills, iron ore, coal, electric power, and reinforced concrete.

Investment results for the first half of the year, however, are seldom reliable indicators of the achievement for the entire year and the investment plan, unlike the overall production plan, often is changed during the year.

IV. Agriculture

Increases, over the first half of 1956, of 30 percent for meat production and 26 percent for milk production were announced. These increases refer to collective and state farm production and do not include the important share of production contributed by the private sector, which holds about half of the cattle and about 40 percent of the hogs. Private livestock production has probably not increased at the same rate.

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The plan to even out meat production throughout this year probably is a reason why the socialized sector shows a large increase. In former years, meat production during the year was heavily concentrated in the second half of the year, and only a third of the annual meat output came in the first half.

Although total production of meat and milk in 1957 will be substantially above 1956, the increases for the full year will probably be considerably less than for the first half, when livestock production benefited from the large grain harvest of 1956 and good spring pasture conditions. Preliminary information indicates that weather conditions are not so favorable for this year's harvest.

The continued rapid rise in output of agricultural machinery reflects not only the drive to obtain greater harvests and more feed for the livestock program but also the continued high priority of agriculture in general. The greatest gains were in machinery for corn production, and for two-stage harvesting to reduce harvest losses of small grains. The 56,000 grain combines, 41,000 corn and silage combines, and 75,000 headers delivered during the first half of 1957 equal the numbers received during all of 1956. These deliveries, which reflect the current urgent need for all types of agricultural machinery, are well ahead of the annual schedule implied in the Sixth Five-Year Plan. Therefore, the agricultural machinery park in 1960 will be much larger or newer (as a result of retirements) than planned, unless deliveries are reduced in 1958 or 1959.

The number of state farms grew by 674, six times the net increase in the preceding six years. Although a large number of new state farms were created in the New Lands during 1954-56, there was little net increase in the number of state farms during that period. The recent increase may indicate a trend toward the limited conversion of collective to state farms. The objectives of such a program would be to

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increase output by bolstering backward farms with state aid in the form of increased capital investment and adoption of better technology. If allocations of capital machinery and other capital equipment are correspondingly increased to agriculture as a whole, there is a strong possibility of labor savings toward the end of the current plan. The agricultural machinery output trends thus far imply a further increase in capital investment in agriculture.

V. Labor Force

There was an addition of 2.1 million workers and employees during the past 12 months. Of this number, however, 0.6 million represents merely the bookkeeping transfer of members of producer cooperatives. In addition, there was probably some transfer of collective farmers to state farm employment as a result of the creation of new state farms. Because no data were released on the net change in collective farm employment from mid-1956 to mid-1957 the change in the total civilian labor force during this period cannot be estimated. The mid-year plan fulfillment, therefore, does not provide any additional information on probable demobilization. However, analysis of labor force data for the full year 1956 does indicate an apparent demobilization of more than a million men during that period. Service men demobilized during 1956 would have made a substantial contribution to industrial output in the first half of 1957.

VI. Transportation

The reports of railway freight traffic for the first half of 1957 indicate an increase of nearly 10 percent in the average length of haul from about 787 kilometers in 1956. This may well reflect the increasing remoteness of raw material sources. The goal to reduce the average length of haul to 750 kilometers in 1960, therefore, appears unattainable.

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VII. Retail Trade

Retail trade volume, 16 percent larger than for the first half of 1956, is well ahead of plan. This rapid growth is about double the increase in output of food and nonfood industrial consumer goods. Availabilities of perishable foods increased because of the large 1956 harvest. In addition, however, it appears that stocks and inventories of industrial products may have been reduced. The rapid increase in availabilities of consumer goods is providing material incentives to the labor force and partly offsets recent increases in disposable income from wage and pension measures.

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TABLE 3
PRODUCTION TRENDS FOR SELECTED COMMODITIES

	<u>Percentage Increase Full Year 1956 Over Full Year 1955</u>	<u>Percentage Increase First Half 1957 Over First Half 1956</u>
<u>Consumer Goods</u>		
Cotton Fabrics	-8	3
Woolen Fabrics	6	6
Cameras	17	12
Radios & Television Receivers	6	-5
Household Washing Machines	125	187
Household Sewing Machines	19	20
Motorcycles	22	13
Meat Marketable Output	*	30
Fish	4	8
Butter, Cheese, & other dairy pro- ducts in terms of milk, with the exception of pro- duction by collec- tive farms and household pro- duction by the population	28	25
Canned Goods	12	-2
Cigarettes	3	5
<u>Capital Equipment</u>		
Metallurgical Equipment	3	-10
Chemical Equipment	-2	7
Oil Industry Equipment	1	6
Spinning Machines	-18	48
Steam & Gas Tur- bines	4	-3
Generators for Steam & Gas Tur- bines	15	-1

*Comparable figure not reported

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	<u>Percentage Increase Full Year 1956 Over Full Year 1955</u>	<u>Percentage Increase First Half 1957 Over First Half 1956</u>
<u>Capital Equipment (con't.)</u>		
Large Electric Machines	20	26
Electric Motors	11	17
Metal Cutting Ma- chine Tools	4	4
Motor Vehicles	4	8
Trucks	9	5
Cars	-9	18
Ball Bearings & Roller Bearings	20	15
<u>Transport Machinery</u>		
Electric Engines for Main Railways	11	27
Diesel Engines for Main Railways	20	163
Autobuses	8	12
Excavators	30	44
<u>Agricultural Equipment</u>		
Tractors	12	18
Row-Crop Culti- vator Tractors	19	28
Tractor Plows	20	-8
Grain Combines	70	59
Corn Harvesting Combines	(308) ()	() () 545*
Combines for Har- vesting Silage Crops	() () ()	() () () 146*

*The first-half 1956 output with which comparison is made in-
cluded a relatively small part of the total 1956 output.

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