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Recent Trends in the  
Soviet Economy

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## Recent Trends in the Soviet Economy

### A. Gross National Product

For the Soviet Union, 1969 was a year of slower growth and generally unsatisfactory economic performance. Nevertheless, the USSR easily maintained its second place position among the world's economic powers, producing only half as much as the United States but almost  $2\frac{1}{2}$  times as much as third ranking Japan or fourth ranking West Germany. Measured on a per capita basis, however, Soviet gross national product (GNP) is only about 40 percent of the American or  $\frac{2}{3}$  of the northwest European and is comparable to the Italian or Japanese.

During 1969, Soviet GNP increased only 2.3 percent, that is, at less than half the rate maintained during the preceding several years and the lowest rate posted since the disastrous agricultural year of 1963. Over the years, the rapid growth of factor (i.e., capital and labor) inputs has been largely responsible for the rapid growth of Soviet output. Employment increased more rapidly in the Soviet Union during the 1960's than in any other major industrial nation, largely because of demographic circumstances. The Soviet capital stock also grew rapidly, thanks to rapid growth of investment and <sup>a</sup>low rate of retirement of fixed assets. Another source of output growth has been rising joint factor productivity, that is, improvement in the efficiency with which measured inputs are used. From 1961 through 1967, joint factor productivity in Soviet industry increased slowly, however, and during 1968-69 it apparently registered a slight decrease.

← Year to year variations in weather conditions have been sufficient to cause sizable swings in the rate of change of joint factor productivity in agriculture.

Dissatisfaction of the Soviet leaders with the performance of the economy is evident in their speeches and in a flood of press articles that urge better and more intensive work and announce new measures to alleviate specific difficulties. Basically, concern seems to be centered on the declining rate of growth of nonagricultural production, but chronic difficulties in agriculture draw attention as well. Measures aimed at increasing the output obtained from given inputs have been widely publicized. Much attention has been given to measures for improving the distribution of labor and the organization of producing units or work tasks as well as to measures intended to speed the development and introduction of new equipment. Enterprises and organizations of all sorts are being pressured to release unneeded workers for employment elsewhere. Nevertheless, large scale transfers of labor from agriculture, which absorbs an anachronistically large portion of the labor force, are not being advocated publicly. To date, no satisfactory cure for decelerating output growth has been hit upon.

#### B. Agricultural Production

Employing about one-third of the labor force, the agricultural sector accounts for over one-fifth of gross national product. Hence, poor results

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The 1969 decline in the rate of growth of industrial materials output was highlighted by a serious deceleration of growth in the paper and paper-board and the ferrous and nonferrous metals industries. Production of only one major type of industrial material -- coal -- / <sup>increased</sup> faster in 1969 than in 1968. The growth of nondurable consumer goods production was slowed primarily by a sharp deceleration in the growth of processed foods output. In the civilian machinery category, consumer durables production ~~set~~ the pace.

#### Observations on GNP End Uses

##### D. Defense

Soviet defense expenditures increased intermittently throughout the 1960's. During 1967 and 1968, explicit defense expenditures in the state budget increased about 25 percent, but this figure was influenced by the enactment of sweeping price changes. A further increase of 6 percent was registered in 1969. More than 10 percent of GNP currently is being allocated to defense objectives.

The defense activities that account for more than a tenth of Soviet gross national product naturally absorb productive resources that otherwise could be used to produce goods for consumption and/or investment. The continuing trend toward progressively more sophisticated and more expensive weapons systems has led to considerable discussion in the United States of the hypothesis that defense is becoming an intolerable -- or at least extremely onerous -- burden upon the Soviet economy.

In support of the onerous burden hypothesis, it sometimes is argued that the Soviet leaders are finding it increasingly difficult to reject or postpone the satisfaction of consumers' wants. Revolutionary enthusiasm, it is said, no longer is sufficient to make sacrifices of consumer welfare acceptable either to the population at large or to many Communist Party members and leaders. The very sizable improvements that have been made in consumer welfare in recent years have not relieved universal dissatisfaction with living conditions, but rather may have whetted the general appetite for further gains. The conviction is said to be spreading that Communism must prove its superiority over capitalism by permitting the Soviet people to live even better than the people of advanced Western countries and do so in the very near future.

The defense burden also is thought to be growing more serious because the portion of gross national product that is invested rather than allocated to consumption or defense must be increased if output is to grow at the rates achieved in the past. If the growth of GNP is permitted to slow, the satisfaction of future needs of <sup>various</sup> sorts will have to be postponed or sacrificed. For several reasons the Soviets are finding that each given amount of gross investment is becoming associated with a progressively smaller increase in output. Growth of gross fixed investment was very rapid through the 1950's and has been significantly slower -- though still a bit more rapid than growth of GNP -- during the 1960's. This deceleration has caused a larger portion of gross investment to be absorbed in the replacement of worn-out

capital; i.e., it has resulted in a decline of net investment relative to gross investment. Despite the slowing of investment growth, the capital stock continues to increase more rapidly than the labor force, and the continuing substitution of capital for labor that results from this growth disparity is encountering seriously diminishing returns. Conceivably, technological progress could boost joint factor productivity sufficiently to offset fully the forces tending to reduce the increment in output associated with a given amount of gross investment. However, in recent years technological progress has been inadequate to this task.

It sometimes is emphasized that reducing the priority of defense objectives would stimulate GNP growth not only because it would facilitate an increase in investment but also because it would foster technological progress and increases in joint factor productivity. Factor productivity would benefit from the shift of a portion of the research and development effort -- now predominantly directed toward defense objectives -- and a portion of the most innovative people -- now generally occupied in defense related work -- to non-defense sectors. This argument is buttressed by allusion to the existence of an inverse correlation between growth of defense expenditures and growth of joint factor productivity during the late 1950's and the early 1960's.

Perhaps the most noteworthy indication that the defense burden may not be becoming more onerous is the fact that defense objectives now claim a smaller portion of GNP than they did in the recent past and a much smaller

portion than they claimed in the early 1950's. Moreover, per capita GNP is much greater now than it was during the early 1950's, so the sacrifice of a given portion of GNP to defense needs should be less painful now.

Gross national product has been growing much faster than population in the Soviet Union, a fact that has permitted and would continue to permit per capita consumption to increase even while total consumption declines as a portion of GNP. Continuing growth of per capita output would permit allocations to defense and investment to increase not only absolutely but also relative to GNP. Total consumption did in fact decline from 61 percent of GNP in 1950 to 57 percent in 1960 and perhaps 55 percent in 1969, while per capita consumption in absolute terms was increasing significantly. If total consumption continues to increase less rapidly than -- say four-fifths as fast as -- GNP over the next half dozen years while the defense share in GNP remains constant, then GNP growth at an average annual rate of 5 percent would permit annual investment to rise more than 45 percent. Meanwhile, annual defense expenditures would increase by more than a third, making possible major improvements in Soviet military capabilities. Moreover, it can be argued convincingly that there is little reason to believe that the Soviet leaders would not impose greater sacrifices on the Soviet consumer if they believed security needs demanded it.

The positive effect that a reduction of defense expenditures would have on joint factor productivity might be less than first supposed. The inverse relationship between growth of defense expenditures and growth of joint



factor productivity during the late 1950's and early 1960's may well have been unique to that time period. At least it is not observable in some other periods. Moreover, restriction of defense expenditure might not involve much, if any, reorientation of research and development activities from defense to non-defense objectives, especially if defense expenditures were held down because of an international agreement to limit the manufacture and deployment of certain types of weapons. In such a situation, large amounts of defense oriented research and development still would be needed to keep the Soviet Union at the frontier of military technology, and this work would be complicated by the reduction of opportunities for testing and gaining field experience. Finally, it must be noted that the continuing decline in investment yields probably would be aggravated by a further shift of resources into investment.

#### E. Investment

The Soviet Union now invests nearly one-third of its gross national product. Consequently, the absolute amount of annual investment in the Soviet economy is comparable to the American total, although American GNP is twice that of the Soviet Union. During 1969, gross fixed investment in the Soviet economy increased about 4 percent, that is, much less rapidly than in preceding years but still a bit faster than GNP.

The development and implementation of Soviet investment plans are hampered by problems of long standing. Among these are a dearth of criteria for choosing among various potential projects, a tendency to spread construction efforts among an excessive number of projects, a chronic excess of uninstalled equipment, and a general inability to coordinate assignments of construction services or deliveries of construction supplies. In an attempt to alleviate some of these difficulties, the number of newly initiated major construction projects recently was curtailed sharply, and administrative reforms were introduced.

#### F. Consumption

During 1969, a little more than half of Soviet gross national product was channeled into consumption. Per capita consumption rose by some  $3\frac{1}{2}$  percent, but on a per capita basis Soviet consumption remains at only about one-third the US level.

Per capita consumption of food increased a scant one percent during 1969, as various constraints including reduced production of meat interrupted

the trend of qualitative improvement in the Soviet diet. Per capita consumption of soft goods, of durable goods, of health and education services, and of personal services increased at a slower pace in 1969 than in the preceding year.

The amount of housing put into service in both 1968 and 1969 was less than the amount completed in 1967--which in turn was less than the amount put into service in 1960. Nevertheless, enough dwellings were completed during 1968-69 to increase the housing stock by some  $5\frac{1}{2}$  percent. The program of building large numbers of very small housing units now has been under way for more than a decade. Since 1960, the amount of living space available per capita has been increased by some 20 percent, but at 77 square feet it falls woefully short of the modest officially prescribed standard for health and decency -- 97 square feet. Moreover, many families still do not have dwelling units to themselves, and even the new housing is shoddy and poorly appointed.

Disposable money incomes continued to increase faster than the supply of consumer goods and services during 1969. In Moscow, prices rose some 10 percent in the basically unregulated collective farm markets, where peasants sell produce from their private garden plots. The centrally established prices of goods sold in the state and cooperative stores changed little, however. For this reason and because producing units do not necessarily adjust their activities in response to demand pressures, increases in disposable money incomes are a poor gauge of changes in the well-being of Soviet consumers. With many prices fixed and too little

to buy, a large portion of the 1969 increase in earnings simply found its way into personal savings accounts in the state bank.

#### G. Trade and Aid

Quantitatively, the Soviet Union is not heavily dependent on foreign trade. Less than 5 percent of GNP is exported each year. Nevertheless, imports and exports of a number of items are important to the Soviet economy. The value of Soviet trade turnover approximately doubled during the 1960's, and in 1969 an increase of about 8 percent was registered. Some 2/3 of Soviet trade is with other Communist countries, primarily with the countries of Eastern Europe. The share of total Soviet trade accounted for by commerce with Eastern Europe held constant in 1969. Soviet exports to Eastern Europe are dominated by industrial and agricultural raw materials, semifinished products, and fuels. By 1967, Soviet grain exports to the area had recovered a substantial portion of the decline that had occurred in the mid-1960's following disappointing Soviet harvests. The Soviet Union also exports large and increasing quantities of machinery and equipment to Eastern Europe, particularly to the less advanced countries of the area. Soviet imports from Eastern Europe have been dominated by machinery and equipment and manufactured consumer goods. Imports of food have declined since the lean years of the mid-1960's.

Trade with the industrial West increased more than 12 percent in 1969. The share of trade with developed Western countries in total Soviet trade turnover increased from 18.5 percent in 1960 to 21.8 percent in 1969.

Soviet commerce with the industrial West is mainly trade with Western Europe and consists in large measure of an exchange of Soviet fuels, raw materials, and semifinished products for Western machinery and equipment and manufactured consumer goods. Large quantities of wheat and wheat flour were imported from Western countries during the mid-1960's.

Trade with less developed countries (LDC's) accounts for less than 10 percent of Soviet trade turnover. It increased slightly in 1968 and 1969 following a slight decline in 1967. Soviet exports to the LDC's consist largely of machinery and equipment. Textile fibers, natural rubber, and food are the principal Soviet imports from these countries.

During 1969, the Soviet Union concluded agreements extending \$462 million worth of economic assistance. This is substantially more than the amount committed in the preceding year but only a fraction of the amount committed in the peak year of 1966. The 1969 agreements extend aid primarily to Turkey, Iraq, and Guinea. The Sudan, Pakistan, Uruguay, and Mali also were beneficiaries. The drawing of credits by Soviet clients lags an average of 7 years behind formal extension. Annual drawings have been averaging about \$350 million in recent years.

Soviet trade policies are shaped by political rather than economic or other considerations in many cases, but it probably is safe to say that Soviet programs of assistance to less developed countries are politically motivated in practically all cases. The occurrence of a shift in the political importance of assistance programs in the eyes of Soviet leaders

seems to be indicated by the peaking of aid commitments and aid drawings in the mid-1960's. During the last several years, Soviet aid commitments have been more selective and better tailored to local conditions and individual requirements.