

RADIO FREE EUROPE *Research*

COMMUNIST AREA

● USSR: Economics

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SOVIET INDUSTRY - MIDYEAR 1967

Not since 1959 has Soviet industry expanded at such a pace as is now claimed by the Central Statistical Administration's six-monthly progress report.¹ It says that industrial output has grown by 10.6% of the same period of last year. Acceleration of growth has begun with a vengeance:

<u>1st Half Year</u>	<u>Percent Growth Industrial Output</u>
1959	+12%
1960	+10%
1961	+ 8.4%
1962	"nearly 10%"
1963	+ 8.5%
1964	+ 7.5%
1965	+ 9.3%
1966	+ 8.0%
1967	+10.6%

Presumably this impressive performance is caused partly by the excellent harvest of last year and partly by the progress of the economic reform, which has now extended to 4,300 enterprises (on average the reformed factories performed appreciably better than the rest, with

1) Pravda, 16 July 1967.

output up 12%, profits up 22%, and productivity up 8%).

Sectors of Industry Compared

The best performance in terms of growth rates were by the Ministry of the Natural Gas Industry (+14%), the Ministry of the Chemical Industry (+16%), the Ministry of Instrumentation, Automation and Guidance Systems (+20%), the Ministry of the Automobile Industry (+14%), the Ministry of Light Engineering (+14%), and the Ministry of the Meat and Milk Industry (+14%). An acceleration of growth has begun in the chemical industry for the first time since 1962:

Mid-year Figures in %

<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>
+17	+17	+14	+14	+12	+13

It is important to note that four out of the six branches concerned are consumer-oriented (chemicals, automobiles, light engineering and meat and milk.

Like the chemical industry, the key sector of engineering and metal-processing is once again accelerating vigorously:

Mid-year Figures in %

Engineering and Metal-Processing

<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>
+14	"almost 11"	+9	+11	+13

As in mid-1966 the steel and non-ferrous metals industry reported a healthy 9% growth rate, but this was easily overshadowed by light industry which expanded by no less than 12% over the same period last year.

Individual Products

The highest growth rate for individual products went to synthetic soaps (+38%), with plastics close behind (+19%), fertilizers (+15%) and instruments, automation and calculating machines (+16%). Consumer durables were no longer expanding as fast as in 1966, but refrigerators did well (+24%), followed by radios and radiograms (+20%), TV sets (+12%), and washing machines (+11%). The slow-down in the rate of growth in the durables industry was not unexpected because Soviet production rates per capita of population have now reached West European levels. The only products for which lower production figures were reported were oil equipment (1-), textile machinery (-5%) and electrical locomotives (-20%). The textile machinery industry has probably been hit by the large programme of imports from Western Europe which is now building up.

Labor Productivity

This index rose by 7% in comparison with the 1st half year of 1966. The result is satisfactory since the planned growth for the full year is only 6%.

Profitability

Profits in the aggregate economy increased much faster than for well over five years past, presumably because of the excellent harvest and the Libermanesque slant of the 1965 economic reforms:

Mid-year Figures in %

<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>
+11	+3	+8	+11	+7	+16

Industry alone did even better, with profits up by 20%.

Transport

Air transport was once again the fastest-growing branch in this sector. Passengers carried were up by 17%,

2) See Pravda, 16 December 1966.

and passengers' turnover up by 19%. This year Aeroflot expects to carry about 53,000,000 passengers.

Investment

The rate of growth of centralized capital investment went up sharply during the year, but has not yet returned to the 1965 level:

Mid-year Figures in %

<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>
+8	+10	+4	+5	+10	+2	+6

Centralized investment is now running at the rate of 36 billion rubles a year. In the eight years prior to and including 1958, the USSR was increasing her total fixed investment faster than any of the six major market economies.³ Since 1958 and until 1963 inclusive she had dropped behind Japan, Germany and the U.K.⁴ In view of trends in the latter two countries since then, it seems probable that the USSR is now only outstripped by Japan on this sector, which in the long run might well prove decisive. This point should be borne in mind by those who repeatedly (and wrongly) claim that the USSR cannot increase her consumption, investment and defense outlays simultaneously. She not only can, she does. Moreover 1967 seems likely to be still another proof of the fact.

Growth of Industrial Labor Force, Mid-Year

<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>
76.0	96.0	71.6	75.2	78.5	81.0

(all in millions of workers)

3) U.S., France, Germany, Italy, U.K., Japan.

4) "New Directions in the Soviet Economy," Joint Economic Committee of U.S. Congress 1967, page 117.

The industrial labor force grew by only 2.5 million workers in the past twelve months, a slower rate of expansion than in any year since 1963. This may reflect a weakening of the post-war baby boom, a reduction in the rate of conversion of kolkhozy into state farms, and the economic reform which lays stress on greater productivity with higher wages rather than mere numerical expansion of the workers on the enterprise's payroll.

Wages

Average industrial monthly wages are reported to have increased a little faster than in 1966, by 3.5%.

Mid-year Figures

<u>1965</u>	<u>1966</u>	<u>1967</u>
6	3	3.5

The rate of growth of the public consumption funds (allowances, pensions, stipends, health service, sanatoria, creches, etc.), on the other hand, slowed down slightly (6.7% cf 8.4% in 1966) although it is still well above the increase in industrial cash wages. Expenditure on the public consumption funds rose to an annual rate of 24.1 billion rubles.

The rate of growth of savings bank deposits slowed down a little (to 9%, cf 12% last year) but there are now 25 billion rubles tucked away in the official savings accounts alone.

Retail trade also grew by 9% during the year (9.4% last year), and it seems likely that many prices of food-stuffs, particularly on the kolkhoz markets, will have declined slightly due to last year's record harvest.

Sales of Consumer Durables

For the first time for years sales of light automobiles increased almost as fast as those of refrigerators (+22% of +26%). The expansion in sales of washing machines and TV sets has now settled down to a modest 10%, but cameras again had a poor year, with sales down by 7%. Camera sales have now been dropping for two years, and it seems rational to suppose that the market is now saturated

at the present price levels (as has been the case for years past with sewing machines).

Foreign Trade

Turnover is accelerating again, reaching the level of 7.5 billion rubles in the first six months of 1967. This implies a growth rate of 7% (cf 4.5% last year).

A more rapid growth of trade with the Comecon countries, the bigger imports program from W. Europe, and the rapid growth of Soviet oil sales (which rose in 1966 alone by about 13%) were probably the main factors in this development.

Housing

The rate of housing completions has now been steady since 1965, at the rate of half a million in six months.

Apartments Completed

<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>
485,000	490,000	500,000	500,000	500,000

But the flats are growing a fraction larger (21,000,000 sq. metres completed in 1967 cf 20,000,000 in the first half of last year). The majority of completions normally take place in the second half of the year. The rate of growth of the population has slowed down to 2 1/2 million a year.

Conclusions

Despite an overt defense budget which was increased for both 1966 and 1967 (by 600,000,000 rubles for 1966 and by 1,100,000 rubles for 1967), there has been a faster rate of industrial investment and an increased level of consumption in the past twelve months. Migs and missiles for Vietnam notwithstanding, Galoshes round Moscow and/or Tallin, it still appears that 24% more ice-boxes, 11% more washing machines, 12% more TV sets and 10% more automobiles were made in the first six months of

1967 than in the same period of last year.

It should also be noticed that the public consumption funds increased during the year faster, in absolute terms, than the overt defense budget, which itself was raised by more than a billion rubles.

Goulash communism is still with us. To assume it is incompatible with Galosh communism is to underestimate the magnitude and growth rate of the Soviet economy.

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