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Evaluation and Analysis Department
Background Information USSR

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USSR'S ECONOMIC REPORT ON 1959

The Central Statistical Administration's annual report on the Soviet economy for the year 1959 is published by Pravda (January 22, 1960). Industrial output is said to have grown by 11% over the 1958 level, exceeding the 1959 plan by 3.3%. Despite the broader base of the economy, progress has been slightly faster than in the previous year, when the C.S.A. claimed an expansion of only 10% above the 1957 output (Pravda, January 16, 1958).

The demographic decline caused by the war was appreciably more serious in 1959 than in the previous year. The weight currently to be attached to it is well measured by the mild acceleration of growth last year, when no demobilization occurred to swell the labor force, whereas in 1958 the demobilization of 300,000 men was announced at the beginning of the year.

The USSR continued to maintain dogmatic orthodoxy during 1959 by reporting an increase of industrial output of 12% over 1958 in Group A (heavy industry), but only 10.3% for Group B (consumer goods). Thus although little relief for the consumer can be expected in the near future, it is a fact that the gap in favor of Group A is rapidly narrowing. In 1959 it was only 1.7%, whereas in 1958 it was as much as 4% (11% for Group A and 7% for Group B) when compared with the 1957 figures.

Performance in 1959, compared with 1958 and the original, over-ambitious 1960 plan, for some of the more important products, is shown in the table below:

| | <u>1958</u> | <u>1959</u> | <u>Original 1960 Plan (abandoned)</u> |
|-------------------------------------|-------------|-------------|-------------------------------------------|
| Coal (Million t.) | 496 | 506.5 | 593 |
| Oil (Million t.) | 113 | 129.5 | 135 |
| Electricity ('000-million kwhs. | 233 | 264 | 320 |
| Pig iron (Million t.) | 39.6 | 43 | 53 |
| Crude steel (Million t.) | 54.9 | 59.9 | 68.3 |
| Rolled metal (Million t.) | 42.9 | 47 | 52.7 |
| Cement (Million t.) | 33.3 | 38.8 | 55 |
| Fertilizer (Million t.) | 12.4 | 12.9 | 19.6 |
| Natural gas ('000-million cu.m.) | 29.8 | 37.2 | 40 |

| <u>Consumer Goods</u> | <u>1958</u> | <u>1959</u> |
|------------------------------------|-------------|-------------|
| Cotton fabrics (billion sq. m.) | 5.8 | 4.6 |
| Wollen fabrics (million sq. m.) | 303 | 416 |
| Silk fabrics " " " " } | 845 | 663 |
| Leather shoes (million pairs) | 356 | 389 |
| Radio (million sets) | 3.9 | 4.0 |
| TV (million sets) | 1.0 | 1.3 |
| Sewing machines (million) | 2.7 | 2.9 |
| Refrigerators (million) | .36 | .426 |
| Washing Machines (million) | .538 | .724 |
| Bicycles and mopeds (million) | 3.7 | 3.3 |
| Motorcycles and scooters (million) | 0.4 | 0.5 |
| Passenger cars ('000s) | 122.0 | 124.5 |
| Trucks and buses ('000s) | 389.0 | 370.5 |

It was in agricultural machinery that failure during 1959 was most evident:

| | <u>1958</u> | <u>1959</u> |
|--------------------------------------------|-------------|-------------|
| Tractors ('000 phys. units) | 220 | 213.5 |
| Tractor plows ('000 phys. units) | 164 | 155 |
| Tractor seed drills ('000 phys. units) | 218 | 136.5 |
| Tractor cultivators " " units) | 177 | 121.5 |
| Grain combines ('000 phys. units) | 65 | 53.6 |
| Beet combines " " " " | 7.3 | 4.9 |
| Tractor mowers " " " " | 73.5 | 83.8 |
| Grain cleaning machines ('000 phys. units) | 12.0 | 15.7 |

This shockingly poor performance, at a time when Soviet agriculture is most inadequately mechanized, was presumably due to the aftermath of the abolition of the MTS. It seems that the kolkhozy either could not or would not buy the 1959 output of the agriculture machinery plants in addition to the second-hand equipment, much of it obsolescent, which they were so quickly "persuaded" to take over from the M.T.S. This lamentable showing also clears up the unexplained mystery as to why the 1960 targets for agricultural machinery have been set well below those for 1958 (see Background Information, "The 1960 Soviet Plan," October 29, 1959, p. ii). The official explanation for the 1959 performance given by the C.S.A. is that "model change-overs" were taking place, but it sounds a somewhat hollow excuse, in view of the small absolute figures involved. Moreover, it does not suggest a reason for the modesty of the 1960 targets.

By far the most striking gain made during the year was the rise of 20% over 1958 in industry's profits. Since prices are not known to have been increased so sharply, and

there were appreciably more workers to be paid, it seems possible that the handsome extra profit may have been due to the economies arising out of the four-shift working based on the seven-hour day, which affected more than 13,000,000 workers during the year. It will be interesting to see whether this process continues when the remainder of the non-agricultural workers (about another 43,000,000 people) are switched to the seven-hour day during 1960.

In agriculture, the C.S.A. claims a harvest of 124.8 million tons of grain, but it is thought here that the figure is artificially inflated by the inclusion of grain used as silage. 110 million tons seems a more realistic figure (a 20% drop on 1958).

The placing in service of large numbers of jet and turbo-prop passenger aircraft is demonstrated by the sharp expansion in the carriage of passengers by air -- 48% more than in 1957. Aeroflot's development has clearly not been stunted by the removal of its former chief.

In the capital investment sector, the four most favored industries, by comparison with 1958, were:

| | <u>Increase on 1958</u> <u>Investments</u> |
|----------------|-----------------------------------------------|
| Chemicals | + 59% |
| Engineering | + 39% |
| Light and Food | + 34% |
| Metallurgical | + 22% |

The average number of workers and employees during 1959 was 56.3 million. It is worth studying how the increase of 1.7 million over 1958 was reached:

| <u>Branch</u> | <u>1958 over 1957</u> | <u>1959 over 1958</u> |
|--------------------------------------------------------------|-----------------------|-----------------------|
| Industry, Building Sovkhozy, Transport, Communications | + 2,000,000 | + 1,700,000 |
| Teaching, Research, Education, Medical, etc. | + 400,000 | + 450,000 |
| Trade, Housing, Services | + 300,000 | + 300,000 |
| Real intake | + 2,700,000 | + 2,450,000 |
| Less ex-MTS workers sent to kolkhozy | - 1,300,000 | - 750,000 |
| Book-keeping net intake | + 1,400,000 | + 1,700,000 |

Now that the process of abolishing the MTS is completed there will in future be no artificial reduction of the non-agricultural labor force as there was in the past two years. The demographic decline shows up well in the drop from +2.7 million (real intake) in 1958 to +2.45 million (real intake) in 1959. It amounts to about 10%. If it is doubled in 1960 to allow for the extra harshness of the birth year 1944 by comparison with 1943, the figures indicate that 1960 might well see an increase of 1,900,000 in the non-agricultural labor force (200,000 more than needed by the plan), without allowing anything at all for the effects of the 4th demobilization.

As Secretary Brucker said in his testimony to the Senate Armed Forces Committee, "there will be no significant reduction in Soviet military forces for some time." There need not be.

The educational statistics contained some useful yardsticks. For example, 1,400,000 pupils graduated from the secondary schools during 1959, compared with 1,600,000 in the previous year. Similarly the technical and vocational schools produced 560,000 last year, as compared with 650,000 in 1958. Both these reductions reflect accurately the current demographic losses: neither amount to a scarcity of man-power, when measured against the only comparable Western economy or against the needs of Soviet industry itself.

The continuing expansion of the education system as a whole was demonstrated by the graduation during 1959 of 200,000 teachers. If Soviet education were about to be curtailed, as some foreign observers thought at the end of 1958, it would indeed be astonishing that such a large proportion of an allegedly scarce resource should have been drafted into this one field of activity. Under the circumstances it seems prudent to assume that better education remains a high priority for the Kremlin.

The growth of productivity in 1959 (+7.4% over 1958) was more rapid than in the past (1958: +6% over 1957), reflecting the swiftly increasing use of automation, mechanization and the extremely high output of machine tools (146,000 units in 1959).

Despite the statement that industry's profits rose by 20%, the C.S.A. reports that retail trade increased during the year by 8% in ruble volume. The worker's spending power is clearly not rising as fast as he has a right to expect.

The hire-purchase system, which was universally introduced in the USSR on October 1, 1959, after being denounced for years as a deceitful means of impoverishing the workers, succeeded in taking 1.4 billion rubles in the final quarter alone.

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In view of the overall success of the industrial plan and the resounding failure in agriculture, the setback in agricultural machinery is the most significant economic feature to emerge from the report. It looks now as though the most immediate task for Gosplan is to revise its agricultural machinery targets for 1960 sharply upwards, since otherwise the new year's harvest will have to be brought in by 45,000,000 odd peasants laboring under largely unnecessary handicaps.

r.r.g.