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BAIBAKOV ON THE 1968 PLAN AND RESULTS OF 1967

The record harvest of 1966 and the first fruits of the economic reform introduced in September 1965 appear to have been the main factors in the acceleration of economic growth reported by N.K. Baibakov, the Chairman of Gosplan, to the Supreme Soviet on 10th October.¹ Not since the late fifties has the claim for the growth of gross industrial output been pitched so high:

Growth of Gross Industrial Output in %²

<u>1956-60 average</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968 (p)</u>
10.4	9.1	9.7	8.1	7.3	8.7	8.4	10.4	8.1

Baibakov expects a deceleration in the growth of industrial output next year to 8.1%, but even so the average target of the 1966-70 plan for this indicator (8.2%) would be comfortably exceeded for the first ~~three~~ years of the period.

Since the plan for 1967 of industrial output was only 7.3%, the degree of overfulfillment has been substantial, and is greater than last year when the rate claimed was 8.4% compared with a target of 6.7%.

1) Pravda, 11 October 1967

2) For earlier years see Narkhoz SSSR v 1965 godu, Moscow, 1966, page 121. For 1966 Russian Monitoring, 15 December 1966.

Wage Increase

Despite this favorable result, the rate of growth of real incomes appears to have fallen off slightly, although it is still above the planned level. Baibakov did not give a precise figure for real income per capita in 1967, but he did say that:

In 1966-67 the average annual growth of real incomes will be 5.9% (cf 5.3% planned).

This statement enables us to estimate the 1967 growth figure at approximately 5.8%:

Real Incomes of Population Per Capita

<u>1964</u> ³	<u>1965</u> ⁴	<u>1966</u> ⁵	<u>1967</u> ⁶	<u>1968</u> (plan)
3.9	7	6	5.8	6.9

The average annual wage increase for workers and employees in 1966 and 1967 was 3.5%, whereas the incomes of the kolkhozniki from the collective farms alone rose by 10% in each of the two years. The process of beginning to level out the wage differential as between town and country is therefore well under way.

The wage increases scheduled for 1968 are going to cost more than 6 billion rubles, according to Baibakov (i.e. almost three times as much as the increase in the overt defense budget).

Housing

The housing plan was once again substantially underfilled. For 1967 it had been set at 93.4 million square metres, but on the figures given by Baibakov it is clear that only about 84 million will be completed this year. Even so B and K are doing appreciably better in this sector than Khrushchev towards the end of his reign:

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- 3) Pravda, 10 December 1964.
 - 4) Pravda, 8 December 1965.
 - 5) Radio Moscow, 15 December 1967.
 - 6) Our estimate.

Housing Space (million Sq. Metres) Built by State

<u>1953</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>
30.8	79.3	75.1	78	82	84 (approx.)

The Soviet urban worker now has at his disposal about half the floor space for himself and his family which is enjoyed by his West German or Austrian equivalent.

National Income Growth

The growth of national income claimed by Baibakov is sufficiently high to meet the targets of the 1966-70 plan, which aimed for a rate of 7% p.a. on average.

This is appreciably less than in the late fifties but noticeably more than in the early sixties:

% Growth of National Income of Previous Year

(Marxist Concept)

<u>1956-60</u> <u>average</u>	<u>1961-65</u> <u>average</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968 (plan)</u>
9.2	6.3	6	7.5 ⁷	7.0 ⁸	6.8

Note that Baibakov avoided giving a percentage figure for the actual growth of national income in 1967 but he did say that:

The average absolute growth of national income in 1966-67 will be 14,100,000,000 rubles as against the 9,100,000,000 rubles average of 1961-65.

He also pointed out that in 1966-70 national income growth is expected to be by 39% in all over the 1965 level.

7) SSSR v Tsifrakh v 1966 godu, Moscow 1967, page 17.

8) Derived from Baibakov, Pravda, 11 October 1967.

1968 Industrial Plan

Figures which Baibakov gave for the 1968 plan, combined with the statistics for recent years, give the following picture:

Industrial Output 1965-1968

Selected Items	Units	1965	1966	1967 (p)	1968 (p)
Electric Power	bill. kw/hrs	507	545	598	650
Oil	mill. tons	243	265	286	309
Gas	bill. cu. ms.	129	145	160	173
Steel	mill. tons	91	97	102	107
Rolled metal	"	71	76	81	85
Fertilizer	"	31	36	39	42
Motor Vehicles	thous.	616	675	731	805
Tractors	"	355	382	407	444

In addition, Baibakov broke all previous precedent (in a most helpful manner) by giving estimates for the growth rate in 1968 of the aluminium and copper industry (10.5% and 8.2% respectively). Since no absolute figures for these branches have ever yet been disclosed, his readers are still largely in the dark but at least one corner of this particular veil has at last been lifted.

Investment Priorities

Next year one of the more favored investment sectors will be the ferrous metals industry, where investment is to rise by 23% (cf 21% planned in 1967). But to keep these figures in perspective one should note that steel

output is only to go up by the normal 5,000,000 tons and rolled metal output by 4,000,000 tons (less than in 1966 and 1967). There is therefore good reason to suspect that the heavy investment in the steel industry is largely directed towards facilities for the production of the sheet steel which plants such as Fiat-Togliatti will be consuming on a massive scale in about three years time.

Chemical industry investment has evidently been cut back since the draft five-year plan was drawn up. It was then scheduled to rise by 88% in the five years, but Baibakov now estimates an increase of only 72%. This shortfall is due not so much to any reallocation of resources as to the fact that the chemical construction teams (in the USSR as well as all over W. Europe) have at present far more work than they can possibly handle within the original planned delivery times.

The most favored investment sector by a large margin is the automobile industry. Its capital investment is to be increased threefold in the 1966-70 period, and is to rise in 1968 alone by no less than 77%. This ambitious exercise plus the 3.4 million refrigerators and 4.7 million washing machines planned for 1968 goes far to explain the rise in steel industry investment.

Light industry investment is to increase by 25% in 1968 and to be almost doubled during the five-year plan (this represents a small reduction by comparison with the draft, which had provided in early 1966 for a rise of 133%).

Thus the most favored branches in 1968 in order of investment growth will be as follows:

1. Automobile (+77%)
2. Light Industry (+25%)
3. Ferrous Metals (+23%)
4. Agriculture
(state investment only) (+18%)

This reverses the order of 1967, when investments in steel were rising faster than in light industry.

Total capital investment in the national economy is scheduled to increase in 1968 by 5.7%. This would mean

somewhat faster growth than was achieved in 1966:

Total Capital Investment

(billions of rubles)

<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967 (p)</u>	<u>1968 (p)</u>
37.5	39.3	41.3	45.0	48.7	51.7	55.8	59.6

State centralized investment is expected to grow next year at the same pace (5.7%).

The draft five-year plan had provided for total capital investments of 310 billion rubles. Baibakov has now revised this estimate downwards by 2% to 303.2 billions, but there is little likelihood that even the lower figure will be achieved. Nevertheless total Soviet investment was probably rising in 1967 about as fast as the expenditure on US plant and equipment, which recently has moved as follows:

(billions of \$)

<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>
45	52	60.1	64 (est.)

One interesting aspect of the investment scene is that whereas centralized investment in 1966-70 is planned to rise by 38.5%, non-centralized investment is expected to go up much faster (60%).

Foreign Trade

As in 1966, Baibakov expects the USSR's growth rate for foreign trade in 1967 will prove to be about 6%. For 1968 he hopes for a slight acceleration, to 7.4%. On this showing the USSR is still doing worse than several of the main capitalist nations such as Germany, whose foreign trade rose by 11% in 1966 and is likely to achieve about 9% in 1967, and the US (about 11% in 1966 and 8% in 1967). The OECD area as a whole pushed up its exports by 10.5% in 1966 and is expected to achieve another 8% rise during this year.

The Science Budget

V. Garbuzov, the Finance Minister, is planning to spend 7.9 billion rubles on scientific research in 1968, which is a 10.8% increase on the 1967 outlay.

The dynamics of the scientific budget in recent years have been as follows:

<u>Billions of Rubles</u>					
<u>1958</u>	<u>1962</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968 (p)</u>
1.7	3.0	6.5	6.8	7.1	7.9

In comparison the US Research and Development budget as long ago as 1965 was \$21 billions, but it is believed that costs in the US may be about three times as high as in the USSR when salaries and equipment prices are taken into account.

Light Industry Speeded Up

The 1968 plan announced by Baibakov provides for an increased rate of growth for light industry compared with the directives of the 23rd Congress. The latter asked for 6.7% p.a., but the 1968 target has now been raised to 8.5%. This is startling because it is greater than the projected growth of industrial output as a whole for next year (8.1%) and greater than the planned growth of heavy industry for 1968 (7.9%). Thus the 1966-70 plan is being revised drastically in this field, because it had provided on solid orthodox lines for a greater annual increase in gross industrial output (at 8.2%) than in the production of consumer goods (7.6%).

The reversal of that questionable piece of orthodoxy for 1968 will presumably mean that Baibakov will have to provide plenty of extra capital investment. Yet the original five-year plan draft had provided for an increase of 133% in light industry investment compared with 1960-65, and this figure overshadowed the 45% growth which was scheduled in the five-year plan for investment in all the capital-intensive urban industries combined (transport, fuel, metals, engineering, chemicals, light industry).

The emphasis still seems to be on light rather than heavy industry, and Baibakov added that some of the extra growth would stem from consumer goods production in heavy industry plants.

Record Rise in Defense Spending

The Soviet Finance Minister, V. Garbuzov, announced a record increase in the size of the 1968 overt defense budget, which is to go up by 15%. It is also to attain a record level (under Brezhnev) of 13.5% of all Soviet spending but will still be far below the 16.7% ratio reached during Khrushchev's unsuccessful squeeze on Berlin.

Overt Defense Budget

(billions of current rubles)

<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>
11.5	12.7	13.9	13.3	21.8	13.4	14.5	16.7

The record percentage increase is, however, less than the recent percentage increase in the US defense budget, which rose from \$58,300,000,000 for 1966-67 to \$73 billions for 1967-68.

In both the Soviet and the US cases the figures are inflated by the cost of the Vietnam war, which Mr. McNamara recently estimated as costing the USSR about \$1,000,000,000 a year. In addition there will be the continuing heavy cost to Moscow of reequipping the shattered Arab armies and air forces, which must have cost at least \$150,000,000 in 1967 alone.

The Kremlin is also spending heavily on its Strategic Rocket Forces, deploying at least 100 more ICBMs annually, which implies a growth of the strategic budget by about 25% p.a. Man-power alone in the SRF has grown by this proportion during the past year (according to Institute for Strategic Studies figures), and will presumably go on rising fast as the numbers of ICBMs increase.

Other expensive items in the 1968 budget will be for stepping up the ABM deployment round Moscow and for strengthening the "Tallin Line" of surface-to-air weapons and radar along the Baltic Coast.

Moreover the call-up period for Soviet conscripts has been cut by one year, and this is understandable in the light of the fact that the present large increases in sophisticated armaments require large numbers of long-service volunteer technicians to man and maintain them. The job cannot be properly done by short-service conscripts, and the technicians require much higher pay and privileges than the drafted infantrymen.

Overt defense budget increases are primarily a political signal (since a large proportion of arms expenditure is never disclosed), and in this light one can probably regard the 1968 budget as meaning considerably accelerated shipments of weapons to Vietnam together with a determination not to enter as yet into any agreement limiting ABM or ICBM deployment.

Conclusion

Clearly Garbuzov's budget is a boon to the "metal-eaters" in that defense spending is to go up by 15%, yet at the same time the planned increase in investment in light industry will be up by 25%. Moreover it is not yet certain that the secret side of the arms budget will rise in the same large proportion, and it is not known what share of the increase is solely due to the Vietnam War. 1968 is planned to be a year in which the USSR demonstrates that it, like the US, can afford both more butter and more guns when the situation requires it, and that there is no reason in common sense (as opposed to ideology) why consumer goods production should not grow at a faster rate than heavy industry.

r.r.g.