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● USSR: Agriculture

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### THOUGHTS ON THE SOVIET AGRICULTURAL INVESTMENT ISSUE

Summary: Since the primary task for the new Five-Year Plan is a significant improvement in the material well-being of the Soviet citizenry, agriculture was the sole economic sector where the precise distribution of capital was delineated. Since investment allocations constitute major political decisions in the running controversy over the allocation of capital, the issue of relative returns becomes more than academic to the Kremlin. A new rationale to justify the continued expanded flow of investment into agriculture is advanced by a Kremlin spokesman -- that such outlays are profitable politically and fiscally.

The continuous flow of a high rate of investment capital into the agricultural sector of the Soviet economy was formalized by the 24th Party Congress' approval of the plan directives for developing the economy during the Ninth Five-Year Plan (1971-75). The approved directives were based on the report given to the Congress by Premier A.N. Kosygin. The USSR's Council of Ministers was given until 1 September 1971 to present the final draft of the new Plan to the Supreme Soviet for consideration. (1)

In short, state investment for agriculture, including productive, housing, and cultural construction, and the purchase of machinery is set at 82.2 billion rubles for 1971-75, while kolkhoz investments are to reach 46.4 billion rubles -- making a total of 128.6 billion rubles. (2) This represents an increase of 57 per cent over the previous Plan period. Moreover, Kosygin declared in his speech

the planned capital investment in industrial branches connected with the material and technical provision of agriculture (production of mineral fertilizers, farm machinery, mixed feeds, electric power, and the development of the microbiological industry and other branches) totals 29.3 billion rubles, an increase of 11.5 billion. (3)

These sums bring the aggregate agricultural investment amount to 157.9 billion rubles or roughly one-third of the total investment sum (c. 500 billion rubles) for the Ninth Plan. Kosygin's figures check out with an earlier projection made by the First Deputy Chairman of the State Planning Board, T. Sokolov, that gives investment from all sources into agriculture and directly related industries as amounting to more than 156 billion rubles, or a 56 per cent increase over the previous Plan. (4) It is essential to bear in mind that this is the aggregate sum planned for agriculture and related supporting industries and does not include the food and light consumer good industries.

Substantial changes are planned in the distribution of state capital investments among the individual branches of the economy. Kosygin declared:

the state's share of agricultural investment is to increase more than 70 per cent; in tractor and agricultural machinery about 100 per cent; in the development of the production of mineral fertilizers and insecticides 60 per cent; in light industry 90 per cent; and in the food, dairy and meat industry 60 per cent. In all, approximately 30 per cent of the state's capital investments earmarked for the material economy will be directed into the development of agriculture and the growth of foodstuffs and consumer goods of mass appeal.

[Emphasis supplied].

Here Kosygin explicitly refers to the state's share of investments in agriculture, related supporting industries, food processing industries, and light industry -- a far broader range than indicated in the previous quote (p.2, footnote 3).

However, in both quotes the rather imprecise qualification "of approximately thirty per cent" or "one-third" is applicable, although they refer to two different aggregates.

There is no breakdown of investment totals by sectors or industries in the current directives and it is doubtful if any extensions will be made for the Supreme Soviet session in late summer since the past Plan directives were equally evasive on the spread of capital outlays.

The continued high rate of investment in agriculture is a distinct achievement for B&K diplomacy, particularly in that agriculture has not had the elastic returns to investment as some sectors of industry. (5) In fact, one study shows a steady decline since the 1956-60 period. (6) Some Soviet economists attribute the low return to the obsession with concentrating on fixed assets (structures, livestock premises, construction of all kinds); others maintain that the absence of a nominative base and adequate methodology lead to subjectivism in analyzing investment problems. Still others maintain that the growth and quality of industrial output will automatically generate growth in agriculture, provided the allocations are adequate -- particularly in the supply of power machinery and equipment, fertilizers and insecticides and feed processing as primary inputs.

But investment plans, however carefully laid, have a habit of getting snagged short of their mark. Thus during Khrushchev's Seven-Year Plan, total farm investments reached only 60 per cent of the intended goal, while during the first B&K Plan about 80 per cent achievement was reached. In both instances the sums were officially allocated, but unforeseen political developments occurred, internally and externally, which prompted Kremlin leaders to curtail monetary distribution by the central finance authorities. Given the unstable posture of political affairs, it is not unlikely that the Ninth Plan's investment targets will feel similar restrictions.

Another comparison (while not a precise economic yardstick of comparative growth) does, however, put into perspective the percentage growth between investment and output. During the past Five-Year Plan the rate of investment into agriculture rose by about 60 per cent while the increase in agricultural output grew by 21 per cent. Granted that investments have a residual effect, that the role of weather still plays a decisive part in crop output, and that the effective interrelation of such factors depends on timing, nonetheless the indicated ratio is quite wide.

It is significant that during the entire 24th Party Congress proceedings the agricultural sector was the only major area where the investment allocations were precisely spelled out in the aggregate as well as in subdivisions.



Perhaps to counter the low return to investment argument which the military-heavy industry spokesmen use in the interminable resource allocation controversies against agriculture there has recently appeared persuasive argumentation in authoritative journals in favor of expanded capital outlays for the food and fiber sector. None other than the First Deputy Chairman of the USSR Gosplan, T. Sokolov, wrote on the eve of the Party Congress

the successful development of agriculture greatly determines the production level in the other areas of the national economy; kolkhoz and sovkhoz production has a direct influence upon the material prosperity of all of society.

Soviet agriculture creates about one-third of the national income which is the main index of the national economic plan. It provides for around 30 per cent of the income for the state budget. About 75 per cent of the turnover tax is related to the sales of agricultural products and their processing; and the turnover tax makes up around 40 per cent of all the state budget income. (7)

While the deputy Gosplan chief could be faulted for the less than precise data he presented (Gosplan, among all agencies, could come up with the computerized statistics needed), the argument is clear that agriculture needs more capital resources; and what is of greater consideration, that investment into agriculture is a profitable fiscal undertaking. In more descriptive terms, investment and output flows are movements along a two-way street. If this argument of Sokolov's and his group prevails -- and to date it has influenced Brezhnev and a majority of the Politburo to commit more resources to agriculture as against the pleas of the military-heavy industry advocates -- then in time the living and dietary levels of the Soviet masses will be improved. But the commitment of capital must be at a high rate and continuous.

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- (1) Pravda, 11 April 1971.
  - (2) Ibid.
  - (3) Ibid., 7 April 1971.
  - (4) Ekonomika selskogo khozyaistva, No. 2, 1971, p. 37.
  - (5) See cz, Diminishing Returns To Farm Investment -- a Kremlin Dilemma, 3 September 1970.

- (6) Lemeshev in Voprosy ekonomiki, No. 3, 1970, p. 117.

Net output-growth per ruble of investment:

1956-60	1.32 r.
1961-65	0.45 "
1966-68	0.42 "

- (7) Ekonomika selskogo khozyaistva, No. 2, 1971, p. 32.