

# RADIO FREE EUROPE *Research*

## COMMUNIST AREA

1653

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USSR: Economics

• 19 December 1972

### SOVIET ECONOMIC GROWTH RATE FALLS

Summary: The Central Committee meeting in Moscow confirmed the removal of Mzhvanadze from the Politburo and appointed a new Secretary, V.I. Dolgikh. The Supreme Soviet heard a dismal report on economic growth in 1972, and approved the plan for 1973, which includes the lowest consumer growth target for more than a decade.

The two important meetings held in Moscow yesterday, of the Central Committee and Supreme Soviet respectively, provided a gloomy picture of the results of 1972 and a distinctly unpromising outlook for 1973.

To take the Central Committee meeting first, it officially removed V.P. Mzhvanadze from his post as candidate member of the Politburo, and appointed V.I. Dolgikh as Secretary of the CC, CPSU. (1) The dismissal of Mzhvanadze has been thought probable since September 29, when he was removed from the top party post in Georgia, and was clearly foreshadowed on October 19, when he alone of all the candidate members of the Politburo failed to sign the obituary for K.I. Skryabin. (2)

The innumerable scandals in Georgia during Mahvanadze's declining years (he is now 70) are still coming to light. Zarya Vostoka (3) recently described the case of Ochamchirkaya Tea Factory No. 1, where after a loss of 296,000 rubles (partly caused by the Gogolian habit of paying wages to mythical workers with fictitious names), the Raion Committee of the Party merely transferred the directors to other factories. At the Kocharskaya Tea Plant a major swindle involving one of the biggest tea-growing kolkhozy, the "Sakartvelo" farm, proved to be run by the directors of both enterprises, with more than 100 accessories to the crime, of whom nine were party members. Tens of thousands of rubles had been embezzled.

Vladimir Ivanovich Dolgikh is a horse of quite another color. Only 48 years old, he has spent most of his career running mining enterprises at Norilsk, and is a graduate metallurgical engineer, like Brezhnev. In 1969 he was made First Secretary of the Krasnoyarsk Krai Committee of the Party. With such brief party experience and a twenty-year career in mining behind him, it seems most probable that he is to replace M.S. Solomentsev as the Secretary for Heavy Industry of the CC. The latter post has been vacant since Solomentsev's appointment as Chairman of the Council of Ministers of the RSFSR (4) and later as Candidate Member of the Politburo (5) last year. Since Solomentsev is eleven years older than Dolgikh, there is at last in this one technical post some slight evidence of overdue rejuvenation.

One other point emerges from the reshuffle, and that is that for the first time since 1917, Georgia has no representative in the Politburo. No doubt it is thought in Moscow that this is only fitting punishment for the Republic with the lowest growth rate, more inflated statistics, and more scandals to the square kilometer than any other in the USSR.

#### Baibakov's Report on 1972

Baibakov claimed at the Supreme Soviet meeting that 1972 would show a 6.5% increase in the gross output of industry, instead of the planned 6.9%. This constitutes the slowest growth rate in recent memory, certainly since long before Brezhnev seized the wheel from Khrushchev in 1964.

Growth of Gross Output of Industry  
In Percentage of Previous Year

<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>
9.5	9.1	9.7	8.1	7.3	8.7	8.7
<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973 (plan)</u>
10.0	8.3	7.1	8.5	7.8	6.5	5.8

It can be said that not only is the industrial growth rate down to about two-thirds of what was achieved regularly under Khrushchev, but that for next year it may well be lower than that of the USA, for the first time for many years past.

Even more serious is the strong indication given by Kosygin in his Kommunist article (6) that the growth of national income in 1972 slowed to only 4%. He said that "the national income in 1971-72 had grown by 10%." Since it is known that in 1971 it rose by 6%, (7) it must have increased by about 4% in 1972. There has been no performance as poor as this since 1963, when a disastrous harvest produced only 107 million tons of grain, about 50,000,000 tons less than in 1972.

Growth of National Income Produced  
In Percentages of Previous Year

<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1975</u>	<u>1966</u>
7.7	6.8	5.7	4.0	9.3	6.9	8.1
<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973 (plan)</u>
8.6	8.3	4.8	9.0	6.0	4.0	n.a.

The 1972 plan originally provided for a growth of 6.2% in national income produced.

The explanation, of course, is the harvest failure. According to Baibakov the 1972 harvest is only a little larger than the average of the last 5-year plan, which would mean a gross output of about 168-169,000,000 tons of grain. (8) Next year the farms are expected to produce 197.4 million metric tons, Baibakov said, which would mean bringing in a record harvest. The improbability of the target being reached can be judged by the dynamics of the recent grain harvest:

Grain Crops (million tons)

<u>1950</u>	<u>1960</u>	<u>1965</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973 (plan)</u>
81.2	125.5	121.1	162.4	186.8	181.2	168 ?	197.4

Not even the leap forward between 1969 and 1970 suggests that an improvement of some 29,000,000 tons in one year is in the cards unless 1973 is an annus mirabilis.

Downward Revision of Consumer Growth Rates

In his apologia for the failure in the industrial growth rate in 1972 and the extremely modest target for 1973, Baibakov said:

The rates of growth will be somewhat less than the targets of the 5-year plan this year because there were some delays in the commissioning of production capacity, particularly in the steel, chemical, oil, gas and light industries, and also because of the shortage of some kinds of agricultural raw materials.

It is this situation which probably explains the reversal in priorities for 1973 when, contrary to the 5-year plan, consumer goods output is to grow more slowly than group "A" output, for the first time in at least four years.



Growth of Producer and Consumer Goods Output  
Percentage Change

	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973 (plan)</u>
Producer	8.0	6.9	8.2	7.7	n.a.	6.3
Consumer	8.3	7.2	8.5	7.9	n.a.	4.5

It seems distinctly improbable that this is a deliberate, long-term reversal of priorities and a return to neo-Stalinist tenets in the ratio between the two kinds of industry. A more cautious judgement would be that it has been forced upon Baibakov and Kosygin by the shortage of agricultural raw materials (widely used in the light and food industries) following the 1972 harvest failure. Moreover, its significance is weakened by the fact that the fastest growing sector of Soviet industry at present, passenger automobile production, is classified as heavy industry, although the product is a consumer durable.

Kosygin wrote in Kommunist that automobile production in 1971-72 would increase by 463,000 vehicles, which implies an output growth of 217,000 vehicles this year. Out of that total about 180,000 are likely to have been passenger cars, with the result that car production has now reached approximately the 700,000 p.a. mark. The dynamics in car production recently are:

Passenger Car Output (thousands)

<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972 (estimated)</u>
294	344	529	700

Moreover, it was reported earlier this week that the third assembly line at Togliattigrad is now in use, bringing the planned Fiat capacity there up from 440,000 a year to 660,000 a year. Consequently there is a strong probability that passenger car output will take another leap forward in 1973. This suggests that the failure of crude oil output to reach the planned level in 1972 (393,000,000 tons, on Kosygin's figures, compared with a target of 395,000,000 tons) is all the more likely to lead to a

squeeze in gasoline supplies.

### Agricultural Investments

State capital investment in agriculture, Kosygin wrote, will amount to 28 billion rubles in the two years 1971-72, i.e., they alone are now averaging 14 billion a year. (In 1970 the total investments in agriculture -- state and kolkhoz -- only came to 17 billion rubles, of which nearly 11 billion were state investments, with the other 6 billion coming from the kolkhozy). Kosygin added that capital investments in agriculture for productive purposes will increase by almost 13% in 1973, which is likely to be well above the increase in the capital investment program as a whole.

In Baibakov's speech, it was claimed that the total capital investment program for agriculture in 1973 amounts to 25.4 billion rubles, which means that they will reach the 1969 level for the whole of Soviet industry.

### Capital Investments (State and Kolkhozy) in Agriculture (billion rubles; comparable prices)

<u>1965</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973 (plan)</u>
11.5	15.6	17.3	19.4	n.a.	25.4

Hence the growth of total agricultural investments in the 1971-1973 period is scheduled to be well above 12% p.a., which scarcely accords with a return to priority for heavy industry. State capital investment in the economy as a whole rose in 1971 by only about 6%.

### Consumption-Accumulation Ratio

Kosygin stated that whereas in the 8th Five-Year Plan 73% of national income was used for consumption, in the years 1971-72 the figure has risen to 80%. This indicates a substantial shift in favor of the consumer, and also suggests that the low growth of consumption goods planned for 1973 is more due to the accident of the 1972 harvest than to any return to wilful "metal-eating" in Gosplan.

It is not difficult to recall what Brezhnev had to say at the 24th Congress about his heavy industry lobby.

### Defense Spending -- The Smoke Signal to Helsinki

The same conclusion emerges from the unchanged level of overt defense expenditure, which remains for the fourth year at the level of 17.9 billion rubles. This figure is universally regarded as too low to be much more than a signal of intentions to the West, but clearly if there had been a deliberate swing to "metal-eating," as opposed to an enforced one, the overt defense budget could have been raised with the easy explanation that both the USA and Nato are increasing their military outlays in 1973.

As a result the overt budget falls for the first time to below 10% (9.9% to be precise) of total Soviet spending and that in turn is not far from the International Institute of Strategic Studies' estimate that total Soviet defense expenditure has recently been running at about 11% of G.N.P. (see The Military Balance 1972-73, I.I.S.S., London, 1972, p. 70). The one thing in this area which is certain is the rapid growth of the science budget, much of which seems likely to have military applications.

### Soviet Science Spending

(billions of rubles; current prices)

<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972 (plan)</u>	<u>1973 (plan)</u>
10.0	12.0	13.2	14.4	15.5

An increase of 50% in only four years is certainly impressive evidence of the importance of science in the consciousness of the Politburo. Total budget expenditure in 1973, by contrast, is to rise by only 3.4%, with 5.2% more allotted to social services (education, health, welfare, pensions, and insurance), but a larger than 10% increase in spending on the economy:

State Expenditure 1969-73

(billion rubles: current prices)

Total budget outlays	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972(p)</u>	<u>1972 (p)</u>
of which:					
National Economy	138.5	154.6	165.1	173.6	181.5
Social and Cultural (including Science)	51.9	56.0	58.5(p)	62.9	67.4
Defense	17.7	17.9	17.9	17.9	17.9
Administration	1.7	1.7	1.7	1.7	n.a.

Conclusions

For the first time in recent post-war history the growth rate of the USSR's gross domestic product and national income fell in 1972 to the level achieved by the United Kingdom. As a result of the harvest failure and of the slow completion of investment projects, the 1973 growth rates are planned to be unprecedentedly modest, and below the figures now predicted for US economic growth next year. For the first time in four years, the output of consumer goods is planned to rise more slowly than that of producer goods, but it seems likely that this is due to shortages of raw materials rather than to a deliberate return to neo-Stalinist economics. Apart from the automobile industry, which will produce cars far faster than the refineries can provide fuel for them, the outlook for the Soviet consumer next year is bleaker than at any time since the 1963 harvest failure which helped to unsaddle Khrushchev.

r.r.g.



- (1) Tass, 18 December 1972.
- (2) "Mzhvanadze Dropped From Politburo," Radio Free Europe Research paper, 26 October 1972, by r.r.g.
- (3) 9 December 1972.
- (4) 4 July 1971.
- (5) 23 November 1971.
- (6) No. 17, November 1972, pp. 15-41.
- (7) Economic Survey of Europe in 1971, Part II, U.N., Geneva, 1972, p. 50.
- (8) About 15-20% has to be deducted to obtain the barn yield.