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● USSR: Economics

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PRODUCTIVITY SETBACKS IN 1971

ENDANGER THE 1971-75 PLAN

Summary: Although industrial labor productivity rose in 1971 a little faster than had been planned, by 6.3% instead of 6.0%, it grew appreciably slower than the average annual rate demanded by the 1971-75 plan (6.8%). This slippage was compounded by a more serious shortfall in agricultural productivity, which increased by only 2% (the 9th Five-Year Plan requires an annual average of 6.7%), despite a 10% growth in agricultural investments. Analysis suggests that the 1971-75 plan may be endangered by the shortfalls in labor productivity, and that inflationary pressure is not yet under control, in spite of the slowest rise in real incomes for nearly a decade.

Ever since the 1971-75 plan was published last year, it has been apparent that its Achilles' heel lies in the exceptionally high productivity targets, which are more ambitious than anything achieved in recent decades. Scepticism on this question seems to be justified by the statistical results for 1971, published in Pravda on January 23.

The 9th Five-Year Plan, in its final form adopted in November, demanded an industrial productivity growth of about 37%, whereas 1966-70 produced only 25%. The average annual industrial productivity target works out at about 6.8%, but 1971 only saw a rise of 6.3%. This slippage, of only 0.5%, would not

be serious in itself had it not been compounded by a more serious setback in agricultural productivity, which rose by only 2% last year, instead of the 6.7% average required by the 1971-75 plan.

Global Output Per Man in Industry					
% Change from Previous Year					
<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971(p)</u>	<u>1971(actual)</u>
6.65	4.80	4.60	7.00	6.00	6.30

The failure of agricultural productivity to increase quickly enough must be particularly disappointing to Brezhnev and Polyansky since capital investments in agriculture were raised by an expensive 10%, to 21 billion rubles, in 1971, although the overall capital investment program grew by only 7%.

National Income Growth

National Income Growth in % of Previous Year						
<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971(plan)</u>	<u>1971(actual)</u>
8.1	8.6	8.3	4.8	8.5	6.1	6.0

Real incomes per capita showed the slowest growth for nearly a decade and also failed to meet the planned target:

Real Incomes Per Capita % Change from Previous Year								
<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971(p)</u>	<u>1971(actual)</u>
4.8	6.8	5.9	6.7	6.1	5.0	5.2	4.7	4.5

Presumably the modest growth in incomes was due to a determined effort by the Kremlin to limit the inflationary trends of recent years, after it had been forced by the experience of Poland in December 1969 to hold consumer prices stable. (The workers' anger in the Polish ports was aroused by massive price increases shortly before Christmas.) In reality industrial wages grew a little faster than planned (by 3.3% of 2.8%), but the collective farmers' incomes only rose by 3.0%, which even so was faster than their rate of increase of productivity.

Industrial Products

The 1971 plan was a fairly realistic document, by Soviet standards, and consequently many of the more important industrial targets were achieved, as the table shows:

1968 - 1971						
Item	Units	68	69	70	71(p)	71(actual)
Electricity	bill. kw. hrs.	650	686	740	7790	800
Coal	mill. tons	595	606	624	633	641
Oil	" "	309	329	353	371	372
Gas	bill. cu. ms.	173	180	200	211	212
Steel	mill. tons	107	111	116	120	121
Vehicles	thousands	801	842	916	1,073	1,142
including trucks	"	n.a.	504	524	n.a.	564
passenger cars	"	280	294	344	513	529
Plastics	" tons	1,291	1,452	1,672	1,800	1,862
Chemical Fibers	" tons	554	583	623	672	676
Fertilizers	mill. tons	43.5	46.0	55.4	61.3	61.4
Tractors	thousands	423	442	459	n.a.	472

Despite the strong performance in heavy industry products, the growth rate of Group "B" (consumer goods) was slightly faster than that for Group "A" (7.9% cf 7.7%), as had been planned both for 1971 and for 1971-75 as a whole.

Among the various major industries, the fastest in the growth league was automobiles, due to the opening of large-scale production at the Togliatti plant which produces the Fiat 124.

Two Failures in Consumer Durables

Passenger cars were the big success of the year, with production rising 54% to 529,000, but output of both TV sets and washing machines had to be drastically reduced, TV sets to 5,800,000 (87% of 1970 output) and washing machines to 4,100,000 (77% of 1970 output).

This setback is partially due to market saturation (sales of TV sets were 12% higher than 1970 figures as of August 1), (1) and partly due to model changes intended to eliminate small-screen, old-fashioned, black-and-white sets which are no longer wanted. Improving quality control may be another reason since every third TV set checked in the RSFSR last year was found to be defective.

In the case of washing machines, the present demand is for semi-automatic models, whereas the plants are still churning out obsolete types, the latter accounting for 36% of output in 1971. (2) Consequently, inventories were rising excessively, and production has had to be slashed while the factories are being retooled to make the new machines.

On the other hand, radio production climbed 13%, to 8,000,000 sets (including radiograms) last year. Listening is clearly not going out of fashion, even if not all of it is to Radio Moscow. Refrigerator output increased by 10%, to 4,600,000 units.

Profit Margins Still Rising

The continued progress of the economic reform, with its accent on profitability, was visible last year in a nine per cent rise in profits (at comparable prices) compared to a seven per cent increase in retail turnover.

Capital Investments

The capital investments program was marginally overfulfilled, increasing by 7% during the year, down from the 9% increase claimed for 1970

Total Investment (All Sources - Billion Rubles)			
<u>1969</u>	<u>1970</u>	<u>1971(plan)</u>	<u>1971(actual)</u>
73.6	80.0	86.3	87.7

Housing Program Again Underfulfilled

As usual, actual housing construction fell short of target by about 10%. 2,300,000 new flats were built by the state, kolkhozy and general population combined, but the area involved was only 108,000,000 sq. meters.

Total Housing Construction (million sq. meters)						
<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971(plan)</u>	<u>1971(actual)</u>
102.1	104.5	102.1	103	106	117.8	108

Foreign Trade Growth

Soviet foreign trade grew to a 23.4 billion rubles level, which is 6% higher than in 1970.

Trade with Comecon grew slightly faster, i.e. by 7%, to 13.1 billion rubles

<u>Soviet Foreign Trade (billion rubles)</u>					
<u>1968</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>
15.1	16.3	18.0	19.8	22.1	23.4
with Comecon Countries					
<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>
8.4	9.3	10.4	11.2	12.3	13.1

In some respects this was an inadequate performance. In 1970, Soviet foreign trade grew by 11.0%, so that a drop to a 6% growth rate suggests that the West was not alone in being affected by the recession last year. Secondly the 1971 plan had aimed at a growth rate of 7%, and it was therefore slightly underfulfilled.

Personal Savings

The explosive growth of savings bank deposits continued in 1971, rising by 6.6 billion rubles (about one-ninth) to 53.2 billions:

<u>Personal Deposits in Savings Banks (year end)</u>			
<u>1965</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>
18.7	38.4	46.6	53.2

An interesting feature of both 1970 and presumably 1971 was that for the first time in Soviet history the average size of a savings deposit in the countryside, at 592 rubles, was greater than the average urban deposit (577 rubles). (3) The Brezhnev-

Kosygin policy of improving the living standard of the peasantry, which has been followed since 1965, is beginning to show up in larger savings per capita.

Secondly, as long as personal savings are growing faster than retail trade (which went up by 7%), it seems evident that even the massive expansion of automobile sales, which went up 82% in 1971 by comparison with 1970, has not yet had the effect of dampening the inflationary pressures from the excessive purchasing power in the citizens' hands.

The savings deposits total now accounts for about four months of retail trade turnover at the 1971 level (164 billion rubles).

Conclusion

The major development in 1971 was the fact that productivity, both in industry and agriculture, failed to grow at the average rates required by the 9th Five-Year Plan. Since the latter relies to a greater extent than any previous plan on productivity (because of the decrease in available new labor), this trend is potentially serious unless it is rapidly corrected. But there is a good case for thinking that the productivity targets of the 9th Five-Year Plan are unrealistically high. Light industry grew faster than "Group" "A" although the margin in its favor was not as large as had been planned. 1971 was the first year in which the Soviet steel industry produced more than the USA (133 million tons cf 120 million). (4)

Finally, the policy of favoring agricultural investments, which were up by a tenth over 1970 compared with a 7% rise for total capital investments, conspicuously failed to pay off since there was no increase claimed for agricultural output, and since agricultural productivity rose by a disappointing 2%.

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- (1) Sovietskaya Torgovlya, 18 September 1971.
 - (2) Trud, 5 August 1971.
 - (3) SSSR v Tsifrakh v 1970 godu, Moscow 1971, p. 214.
 - (4) See article by H. Schwartz, New York Times, 27 January 1972; tons quoted here are of 2,000 lbs. in each case.