

CENTRAL INTELLIGENCE AGENCY

27 August 1954

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MEMORANDUM FOR THE INTELLIGENCE ADVISORY COMMITTEE

SUBJECT: NIE 11-4-54: Soviet Capabilities and Probable Soviet Courses of Action through Mid-1959

1. Attached are the revised Conclusions of NIE 11-4-54 as approved by the Board pursuant to a reconsideration of them by the IAC representative on 27 August. This text supersedes the text circulated to you on 26 August.

2. These Conclusions, together with the text of the estimate dated 23 August, amended in accordance with the Corrigenda sheets circulated to your representatives, will be on the agenda of the IAC meeting scheduled for 10:45 Tuesday, 31 August.

3. Pursuant to past practice of releasing basic Soviet estimates, the Board recommends the release of NIE 11-4-54 to [redacted] Action on release will be on the agenda of the 7 September meeting.

*Paul A. Borel*

PAUL A. BOREL  
Acting Assistant Director  
National Estimates

Distribution "A"

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Authority MR 79262 # 1a

By bc NLE Date 5/18/81

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PORTIONS EXEMPTED

E.O. 12065, Sec. 1-301 (b)(c)

CIA letter 5/14/81

NLE Date 5/18/81

& RAC review 12/20/2000

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CENTRAL INTELLIGENCE AGENCY

28 August 1954

SUBJECT: NIE 11-4-54: SOVIET CAPABILITIES AND PROBABLE COURSES  
OF ACTION THROUGH MID-1959

THE PROBLEM

To estimate Soviet capabilities and probable courses of  
action through mid-1959.

CONCLUSIONS

General

1. We believe that the stability and authority of the Soviet regime will not be significantly affected during the period of this estimate by conflicts for power or differences respecting policy within the ruling group. Any internal conflicts arising out of such developments would probably be resolved within the confines of the ruling group and the higher echelons of the Communist Party and would not lead to civil wars or disturbances of major proportions.

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2. The appearance of new leadership in Moscow has had no apparent effect on the character of relations between the USSR and its Satellite states in Eastern Europe. We believe that Soviet authority over the Satellite regimes will remain intact during the period of this estimate.

3. Communist China is more an ally than a Satellite of the USSR. It possesses some capability for independent action, possibly even for action which the USSR might disapprove but which it would find difficult to repudiate. We believe that despite potential sources of friction between the two powers arising from occasional conflicts of national interests, the cohesive forces in the relationship will be far greater than the divisive forces throughout the period of this estimate.

Economic

4. The rate of growth of the Soviet economy has declined in the past five years from the very high rate of the immediate postwar period. We estimate that during the next two years Soviet gross national product (GNP) will increase by about six or seven percent, and in 1956-1959 by about five or six percent, per year. If US GNP should increase during the period of this estimate at its long-range annual average of three percent, Soviet GNP would at the end of the period be about two-fifths of US, as compared with about one-third in 1953.

5. The pattern of resource allocation in the Soviet economy in 1953 showed about 14 percent devoted to defense, 28 percent to investment, and 56 percent to consumption. Current economic programs indicate that for at least the next two years the amount of expenditure on defense, instead of continuing the rapid increase that prevailed in 1950-1952, will remain about the same, while expenditure on investment and consumption will increase. We believe the chances are better than even that the Kremlin will continue its policies along these lines throughout the period of this estimate. The chief emphasis will almost certainly continue to be on further development of heavy industry.

6. The chief weakness of the Soviet economy as a whole has been in agricultural production, which has remained since 1950 at approximately the prewar level, though the population is now about 10 percent greater than in 1940. Soviet leaders appear to have recognized that continuation of the serious lag in agriculture would ultimately make it difficult to meet the food requirements of the growing urban population, the raw material requirements of the expanding industrial economy, and the export requirements of Soviet foreign trade, in which agriculture plays a major role. To remedy the situation the regime has embarked on a vigorous program, with the aim of achieving by 1956 a 50 percent increase in agricultural production over 1950. We believe that this goal will not be met, and that even <sup>in</sup> by 1959 agricultural production will be no more than 15 to 20 percent higher than

in 1950. Even this increase, however, would be sufficient to achieve a moderate increase in the per capita availability of foodstuffs and textiles.\*

Military

7. We believe that, generally speaking, the size of Soviet armed forces-in-being will remain approximately constant during the period of this estimate. ~~The following are the most important developments which we believe will occur in Soviet armed strength during the period of this estimate:~~ *However, the overall effectiveness of these forces will increase, mainly because of the following factors:*

- a. A great increase in numbers of nuclear weapons, and in the range of yields derived from these weapons;
- b. An increase in the number of all-weather fighters and jet medium bombers, and the introduction of jet heavy bombers in 1957;
- c. A great increase in the number of long-range submarines;
- d. An increase in combat effectiveness of Soviet Ground Forces, primarily due to improved weapons, equipment and organization, and to changes in doctrine and tactics designed to increase their capabilities for nuclear warfare.

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\* JIG reservation to this paragraph.

8. The principal limitations of Bloc armed forces during the period of this estimate will be: deficiencies in experience, training, and equipment for long-range air operations and air defense; lack of capability to conduct long-range amphibious and naval operations; and the logistic problems, especially for operations in the Far East, arising from the size of Bloc territory and the relatively inadequate road and rail network and merchant fleet. The questionable political reliability of the Satellite armies places a significant limitation upon their military usefulness.

Probable Courses of Action

9. During the period of this estimate we believe that the Kremlin will try to avoid courses of action <sup>and to deter Communist China from courses of action</sup> which in its judgment would clearly involve substantial risk of general war.\* However, the USSR or one of the Bloc countries might take action creating a situation in which the US or its allies, rather than yield an important position, would decide to take counteraction involving <sup>substantial</sup> grave risk of general war with the USSR. We believe, moreover, that the Kremlin would not be deterred by the risk of general war from taking counteraction against a Western action which it considered an imminent threat to Soviet security. Thus general war might occur during the period of this estimate as the climax of a series of actions and counter-

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\* G-2 reservation.

actions, initiated by either side, which neither side originally intended to lead to general war.

10. The progress being made by the USSR in the development of nuclear weapons, and the increasing Soviet capability to deliver these weapons, are changing the world power situation in important respects. Soviet leaders almost certainly believe that as Soviet nuclear capabilities increase, the unwillingness of the US, <sup>particularly of</sup> and its allies to risk general war will correspondingly increase, and that the Kremlin will therefore have greater freedom of action to promote its objectives without running substantial risk of general war. In any case, the USSR will probably be increasingly ready to apply heavy pressure on the non-Communist world upon any signs of major dissension or weakness among the US and its allies. Nevertheless, we believe that the Kremlin will be extremely reluctant to precipitate a contest in which the USSR would expect to be subjected to nuclear attack. The extent to which the Kremlin uses its increasing freedom of action will depend primarily on the determination, strength, and cohesiveness of the non-Communist world.

11. We believe that the USSR will continue to pursue its expansionist objectives and to seek and exploit opportunities for enlarging the area of Communist control. <sup>be unswerving in its determination</sup> It will ~~attempt~~ to retain the initiative in international affairs and to capitalize on successes in order to keep the Free World on the defensive. <sup>For the near term</sup> ~~In the near future,~~ <sup>continue to</sup> however, the Kremlin will almost certainly direct its external policies

towards the immediate objectives of weakening and disrupting the mutual defense arrangements of non-Communist states, preventing or retarding the rearmament of Germany and Japan, undermining the economic and political stability of non-Communist states, and isolating the US from its allies and associates in Europe and Asia. At the same time it will continue to expand the industrial strength of the Bloc, and to maintain large modern forces-in-being as a guarantee of the integrity of the Bloc and as an instrument of intimidation in support of its policies abroad.

12. The Communists will vary the methods used to accomplish the foregoing aims and will time their actions so as to exploit situations that in their judgment offer the most favorable opportunities. For the time being, the Kremlin seems to feel that its foreign objectives will be best served by a generally conciliatory pose in foreign relations, by gestures of "peaceful co-existence" and proposals for mutual security pacts, by tempting proffers of trade, and by playing on the themes of peace and disarmament. The purpose of these tactics is to allay fear in some parts of the non-Communist world, to create the impression that there has been a basic change in Soviet policy, and thereby to destroy the incentive for Western defense and to undermine US policies. At the same time, however, the Communists continue to support and encourage nationalist and anticolonial movements, and to maintain their efforts to subvert governments outside the Bloc. We believe that the Kremlin will revert to more aggressive and threatening conduct whenever it feels that such conduct will bring increased

returns. By such varieties and combinations of tactics the Soviet leaders almost certainly consider that they can improve the chances for further Communist strategic advances. We do not believe that such tactics indicate any change in basic Communist objectives, or that they <sup>will</sup> ~~would~~ involve any substantial concessions on the part of the Kremlin.

13. We believe that Southeast Asia almost certainly offers, in the Communist view, the most favorable opportunities for expansion in the near future. The Communists will undoubtedly attempt to extend their gains in Indochina, and will probably expand their efforts to *intimidate* *and* subvert neighboring countries by political infiltration and covert support of local insurrections. ~~The aggressiveness with which the Communist pursue their objectives in this area will depend upon the vigor and effectiveness of non-Communist reaction.~~ *We believe is unlikely,* We do not believe, however, that the Communists will attempt to secure their objectives in Southeast Asia by the commitment of identifiable combat units of Chinese Communist armed forces, *at least during the early period of this estimate.*

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CENTRAL INTELLIGENCE AGENCY

13 August 1954

13 Aug  
Text

MEMORANDUM FOR: Mr. Allan Evans (OIR)  
Colonel W. H. Hennig, USA (G-2)  
Captain B. E. Wiggin, USN (ONI)  
Colonel William S. Boyd, USAF (AFOW-2B2)  
Captain Ray Malpass, USN (JIG)

SUBJECT : NIE 11-4-54: Soviet Capabilities and Probable  
Courses of Action through Mid-1959

1. The attached text, which incorporates the substance of the series of meetings held with your representatives between 21 July and 9 August, is forwarded for review.

2. In view of the heavy schedule facing the IAC during the next six weeks it is important to try to have this text in shape for IAC consideration on 31 August.

3. Accordingly, please have your representative prepared to meet with us at 10:00 Friday, 20 August, in Room 146 South Building.

*Paul A. Borel*  
PAUL A. BOREL  
Acting Assistant Director  
National Estimates

Distribution "B"

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Authority MR 79-262 #16  
By bc NLE Date 5/18/81

NIE 11-6-54

27 August 1954

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CENTRAL INTELLIGENCE AGENCY

13 August 1954

SUBJECT: NIE 11-4-54: SOVIET CAPABILITIES AND PROBABLE COURSES  
OF ACTION THROUGH MID-1959

THE PROBLEM

To estimate Soviet capabilities and probable courses of  
action through mid-1959.

DISCUSSION

I. BASIC COMMUNIST OBJECTIVES AND BELIEFS

1. The Communist leaders now in power in the USSR, or any  
that are likely to succeed them, almost certainly will continue to  
consider their basic objective to be the consolidation and ex-  
pansion of their own power, internally and externally. In pursuing  
this policy most Soviet leaders probably envisage ultimately: (a) the  
elimination of every world power center capable of competing with  
the USSR; (b) the spread of Communism to all parts of the world;  
and (c) Soviet domination over all other Communist regimes.

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2. Soviet leaders probably are also committed to the following propositions concerning the expansion of the power of the USSR:

- a. The struggle between the Communist and the non-Communist world is irreconcilable;
- b. This struggle may go on for a long time, with periods of strategic retreat possibly intervening before the final Communist triumph;
- c. ~~The struggle between the Communist and the non-Communist world~~ will not necessarily involve general war, though general war is always a possibility;
- d. During the period of "coexistence of the two camps" of Communism and capitalism, the Communists must steadily build up the economic and military strength of the USSR, <sup>and Communist China;</sup> and its Satellites; and
- e. At the same time, the Communists must constantly try to divide and weaken the non-Communist world.

II. SOVIET POLITICAL STRUCTURE AND DOMESTIC DEVELOPMENTS

A. The Soviet Political System

3. The Soviet political system is a one-party totalitarian dictatorship, and the enforced and absolute primacy of state over individual interest colors and shapes every aspect of Soviet life. The elaborate system of ideological and physical controls is focused on building up state power, on keeping public opinion under tight rein, and on rendering popular discontent impotent. The will of the Kremlin, which finds political expression in the directives of the Communist party and the Soviet Government, is unfettered by direct popular checks and controls.

4. Political power in the USSR is concentrated in the small group of less than ten men in the Presidium (formerly Politburo) of the Communist Party. This ruling group, now composed mainly of men in their fifties and early sixties with long administrative and party experience, exercises absolute power in the governmental apparatus, the leading organ of which is the Council of Ministers.\* It regulates the various bureaucracies through a highly centralized system of multiple and interlocking controls designed to prevent the emergence of independent

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\* For a chart showing the roles in party and government of the principal Soviet leaders, see Appendix A.

and competing centers of power. The authority of the ruling group is absolute and rests primarily on the Communist party apparatus, on the police power embodied in the omnipresent internal security forces and, in the last resort, on the armed forces.

5. The Communist party, which now has a membership of nearly 7 million, constitutes the most important institution through which the ruling group wields its authority over the Soviet state. The party operates as the main institution of mass persuasion, administrative surveillance, and personnel recruitment in the state. Its chain of command descends through the network of regional and local secretariats and penetrates every stratum of national life. The party controls the police, military, and administrative bureaucracies by assigning party members to key positions, by enforcing party doctrines as the official creed for all, and by imposing the will of the party leadership rigidly on all subordinates.

B. Stability of the Regime

6. Events since Stalin's death do not indicate any essential changes in the institutional bases of Soviet power. ~~The Communist party continues to be the source of all power in the Soviet state.~~ The system of party controls over the police, armed forces, and the bureaucracy remains intact, ~~and the party has taken steps to establish~~

~~greater direct control over the peasantry.~~ The Beria affair, during which the influence and status of the MVD were reduced, confirmed the effectiveness of party controls within this important instrument of power. Despite the increased prestige granted to certain military career officers since Stalin's death, there is no evidence of any relaxation of party controls over the armed forces.

7. The men who now rule the USSR are the same small group, minus only the former police chief, L. P. Beria, who were Stalin's chief associates. The most powerful leader <sup>is probably</sup> ~~appears to be~~ G. M. Malenkov, <sup>chairman of</sup> ~~who occupies first place in both the party Presidium and the Council~~ of Ministers. N. S. Khrushchev, <sup>of the Communist Party</sup> ~~the party~~ First Secretary, and general manager of the day-to-day business of party administration, has risen rapidly in stature, particularly since the elimination of Beria, and may now be on a level with Malenkov. There has been a strong emphasis on "collective" leadership, and other members of the party Presidium besides Malenkov and Khrushchev appear to have some voice in determining Soviet policy and considerable responsibility for supervising its administration. However, the other members of the regime occupy distinctly lower positions of power than Malenkov or Khrushchev, and for the most part specialize in fields of administration for which their experience qualifies them. V. M. Molotov evidently operates mainly in the field of foreign affairs, N. A. Bulganin in military affairs, L. M. Kaganovich in heavy industry and communications, and A. I. Mikoyan in trade.

8. This uneven but relatively fixed balance of power among the members of the ruling group may last for some time, especially if most of the top leaders feel that their interests require its preservation. There is bound to be a tendency for secondary members of the ruling group to rally to the support of the "collective" system in order to protect their position in it whenever any one man begins to make preliminary moves to establish himself as an independent single authority. Now that power has been successfully transferred after Stalin's death and Beria has been efficiently disposed of, the Soviet regime may continue with something comparable to the current modus operandi for some time.

9. On the other hand, such a system of "collective" authority in a totalitarian society has inherent elements of instability. Each leader must be under some compulsion as a result of distrust of his colleagues, of not because of his own ambition, to try to build up his own personal power, since only in this way can he be sure of preventing someone else from becoming sole dictator and proceeding to eliminate his principal former colleagues as potential rivals. When certain leaders become especially powerful, as Malenkov and Khrushchev seem to be now, the lesser members of the ruling group are under some pressure to align themselves with one leader or another, and the whole group tends to polarize around potential rivals. The stresses of this situation are likely to be greatest at times of

impending transfer of power (as at the time of the death of an outstanding leader), in the event of radical disagreement on crucial policies, or when a basic policy supported by the regime has demonstrably failed and scapegoats are required.

10. If an individual leader should make a bid for absolute supremacy, the crisis probably would be settled within the very top echelons of the regime. One or another of the contending factions would win supremacy in the higher councils of the party, and the unsuccessful contestants would quickly lose the power to continue the struggle. Thus the armed forces and the security police would not be likely to become involved as independent instruments of power in open conflict with one another or with the regime.

11. We believe, therefore, that the present Soviet regime is firmly in power and that it is unlikely to be dislodged either by a grouping of forces outside the top leadership or as the result of a struggle within it. Significant changes may take place in the composition of the ruling group or in the relative power positions of its members; one man may even succeed in gaining absolute power. We believe, however, that the new Soviet regime will be able to resolve such conflicts within the confines of the ruling group and the higher echelons of the Communist party. Consequently, we believe that whatever conflicts for power or differences respecting policy

may develop within the ruling group, they are unlikely to affect the stability of the regime or its authority within the country, or to prevent it from making policy decisions and carrying them out. These policies and their implementation will continue to reflect the fundamental agreement which evidently obtains among the leaders concerning the basic objectives of the Communist regime.

C. Domestic Policies

12. Although there has been no weakening in the authority of the Soviet regime, there has been an apparent effort ~~by the regime~~ to moderate some of the more <sup>*rigorous aspects*</sup> ~~existing abuses~~ of the system devised by Stalin. Since the death of Stalin the regime has promised the people an improvement in their standard of living and increased personal security for average law-abiding citizens. The regime has backed these promises with a variety of measures designed to impress upon the population at large the seriousness of its intentions.

13. In addition to these measures affecting the population as a whole, the post-Stalin regime has taken steps to broaden its support within particular social groups. The promises of a stricter observance of legality, the granting of greater prestige to certain military leaders, <sup>*and*</sup> the according of greater prerogatives to the managerial elite, ~~and the gestures toward some relaxation of the rigid~~

~~patterns of cultural conformism~~ have almost certainly met with favor within the important military, administrative, and intellectual groups. Moreover, in view of their higher earning power and elite status in the Soviet totalitarian system, these elements have the most to gain from the program to increase the output of consumer goods, particularly the relatively high-priced goods which figure most conspicuously in the program.

14. By means of these privileges the regime apparently intends to provide the important social groups in Soviet society with increasing vested interests in the existing order. Insofar as this effort succeeds, the regime as a whole will be stronger than ever before. Despite these measures, however, the regime has neither altered the essentials of the Soviet totalitarian system nor eliminated the fundamental causes of discontent in Soviet society, particularly the low scale of living and the pervasive state control and surveillance.

15. The regime has also undertaken measures to relax somewhat the pressures on the less favored population groups. Although living standards in the cities have improve substantially since the low point of the war and are relatively higher than in the countryside, the lot of the average worker is still plagued by wretched housing,

high prices, and scarcities. The present program to raise living standards is modest in relation to the size and needs of the Soviet population, but it will probably be sufficient to achieve a substantial improvement in the living conditions of the urban masses. The regime has also granted economic concessions to the rural population in order to stimulate greater agricultural productivity as well as to mollify peasant discontent. These concessions, which for the first time in Soviet history are greater than those made to the urban population, are still insufficient to remove the basic cause of discontent in the Soviet countryside, which is the system of collectivized agriculture itself. In fact, these concessions have been counterbalanced somewhat by measures to increase the regime's control over the peasants.

16. It is impossible to estimate with certainty the fundamental reasons behind these **decisions** of the new regime. The transfer of power itself from an old dictator with the habit of arbitrariness to a new generation of leaders may be an important reason. However, we believe it likely that the present Soviet leadership had come to regard certain aspects of past policies as damaging to the morale and productivity of important segments of the population, particularly the peasantry, and therefore as detrimental to the interests of the state. Stalin's successors probably believed that a continuation of some of Stalin's policies threatened to produce a state of apathy

which ultimately would have seriously affected the public will to work in time of peace and the potential reliability of the population in time of war. We also believe that the regime's apparently more prudent exercise of its absolute power derives from a conviction that the regime can best attain its objectives in this way, and not from any fear of popular unrest or any reluctance to use force whenever necessary to maintain governmental authority.

17. We believe that the Soviet regime's present efforts to moderate certain aspects of the dictatorship and to raise living standards sprang from a considered revision of the extremes of Stalin's manner of rule and were not merely the temporary concessions of a new regime. We believe that the Soviet leaders recognize that a reversal of this program, except in the event of an external threat or actual war, would result in serious public discontent which would tend to retard the growth of Soviet economic strength. Consequently, these measures will almost certainly be continued for the next two or three years, and possibly throughout the period of this estimate, if the pressure of external or internal circumstances does not require their reversal. The result may well be *an improvement of morale,* ~~a wider acceptance of the~~ ~~regime,~~ especially among the more privileged elements of the population. However, if the concessions made to the peasant population do not achieve sufficient increases in agricultural production, or if they

result in renewed resistance to the system of collective farming, the regime will probably resort again to more repressive measures against the peasantry. In this event, the regime might find itself faced with serious problems of low public morale and low productivity.

### III. SOVIET-SATELLITE RELATIONS

18. The appearance of new leadership in Moscow has had no apparent effect on the character of the relations between the USSR and its Satellite states in Eastern Europe. We believe that Soviet authority over the Satellite regimes will remain intact during the period of this estimate. Widespread political discontent and serious difficulties in building up the Satellite economies will continue. However, during the next five years the Satellite contribution to Soviet power will gradually increase. Soviet control will continue to depend primarily on the presence or proximity of Soviet armed forces, and in the absence of general war popular dissatisfaction almost certainly will not develop beyond the stage of ~~sporadic noncooperation.~~ *passive resistance and occasional localized outbreaks of violence.*

### IV. SINO-SOVIET RELATIONS

19. The relations of the USSR with Communist China are markedly different from those prevailing between the USSR and any other Communist country. Communist China is more a Soviet

ally than a Satellite. It possesses some capability for independent action, possibly even for action which the USSR might disapprove but which it would find difficult to repudiate. However, the main outlines of Communist policy in Asia are probably jointly determined by Moscow and Peiping. While the Soviet voice ~~presumably remains~~ *probably will remain* preponderant, Communist China appears to be increasing its stature within the Sino-Soviet partnership. Soviet propaganda and diplomacy have recently given great emphasis to China's claim to an acknowledged position in international affairs, and the USSR has given evidence of a willingness to have Communist China assume greater responsibilities in furthering Communist interests in Asia. In particular Communist China seems to have an increasingly important role in the execution of Communist policy in North Korea and Indochina.

20. The national interests of the USSR and Communist China are in some cases conflicting, and constitute potential sources of friction between the two powers. We believe, however, that throughout the period of this estimate the cohesive forces in the Sino-Soviet relationship will be far greater than the divisive forces. The USSR and Communist China share a common ideology. Both of them regard the US as the chief obstacle to <sup>*achievement of their*</sup> their objectives, and consider that their interests are threatened by US policy and power. Moreover, each partner profits at the present time from its alliance with the other. Communist China receives essential Soviet political, military,

and economic support. Soviet leaders recognize in China a valuable ally, which provides the USSR not only military strength and defense in depth in the Far East, but also a base for further advancing Communist aims in Asia.

V. SOVIET ECONOMIC POLICY

21. Over the past 25 years the USSR has been transformed from an industrially backward, predominantly agrarian nation into an industrial and military power second only to the US. By socialization of industry and collectivization of agriculture, the Soviet regime obtained complete control over the economy and dictated a sustained policy of maximum industrial expansion, the main features of which have been large investments in heavy industry, high levels of military production, and severe restriction of consumption. Consumption has ~~been~~ *accounted for* a generally declining proportion of total output. The result has been an economic structure heavily weighted in favor of the maintenance of a rapid growth in basic industrial and military potential, but poorly equipped to meet the needs of consumers.

22. The relatively narrow, though steadily expanding, base of primary industrial materials and the competing claims for resources involved in industrial expansion and military preparedness have

required a rigid system of priorities in the allocation of resources. In fixing the order of priorities, agriculture, consumer goods, housing, and domestic trade have been regarded as subordinate to heavy industry. Consequently, in its drive to reach industrial parity with the US, the Soviet regime has neglected certain economic sectors which are vital for future development of the economy as a whole.

23. Since manpower and plant capacity have in general been fully used in the Soviet economy, military production has competed with investment and consumption for scarce resources. In the period 1937-1940 and again, to a certain extent, after 1950, ~~the~~ sharp *increases* ~~rise~~ <sup>were</sup> in military production ~~was~~ accompanied by a decline in the rates of growth of investment and consumption. In the post-1950 period the slowing of growth was far more pronounced in consumption than in investment. The new Soviet leadership still faces the problem of allocating limited resources among the competing claims of industrial expansion, military strength, and consumption.

24. The present regime in the USSR has not fundamentally changed the traditional policy of placing primary emphasis on the rapid development of heavy industry and war potential. The new regime has, however, devoted a great deal of its attention and energies to a revision of current economic plans aimed at speeding up the production of agricultural commodities, especially foodstuffs,

and manufactured consumer goods. Soviet leaders have stated that this goal is to be achieved without decreasing the tempo of heavy industrial development, but they apparently intend, at least for the next two years, to limit defense outlays to approximately the high level reached in 1952 and maintained in 1953. This modification of Soviet economic programs is designed to overcome deficiencies in certain sectors of the economy, particularly agriculture.

25. In terms of resources allocated, Soviet agriculture is the principal beneficiary of the current program to raise consumption levels in the USSR. The great air of urgency with which the Soviet leaders are attacking the agricultural problem indicates their belief that expansion of agriculture is essential for the future development of the Soviet economy. The Soviet leaders appear to have recognized that continuation of the serious lag in agriculture would ultimately make it difficult to meet the food requirements of the growing urban population, the raw material requirements of the expanding industrial economy, and the export requirements of Soviet foreign trade, in which agriculture plays a major role.

26. We believe that Soviet economic policy will continue, at least through 1955, to place primary emphasis on the further growth of heavy industry, while maintaining defense outlays at approximately a constant level, and giving increased attention

and resources to agriculture and consumer industries. Since advances in consumption are likely to fall far short of expectations, the chances are good that the regime will feel it necessary to continue the pattern of resource allocations along present lines through 1959. However, if at any time the Kremlin estimates that international tension is rising dangerously, then it will almost certainly increase defense allocations.

#### VI. SOVIET ECONOMIC GROWTH\*

27. The USSR reached approximately prewar levels of output in 1948 and has steadily expanded in nearly every field since that time. The rate of growth of the Soviet economy, however, has declined in the past five years. From 1948 through 1950 Soviet gross national product (GNP) increased at an average annual rate of approximately 10 or 11 percent, but this rate fell off rapidly thereafter. The unusually high rate of growth through 1950 and

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\* Figures for gross national product provide the most concise and convenient means of describing the size and composition of the economy of a nation, and (in a very rough way) comparing it with other national economies. However, considerable technical difficulties arise in calculating the gross national product of any country. In the case of the USSR, the limited nature of the evidence available makes calculation and interpretation especially difficult. For these reasons the estimates given in the following paragraphs regarding GNP and its principal components must be considered as approximations. We believe nevertheless that they present a reasonably accurate index of trends in the Soviet economy.

the slower rate of growth thereafter were due to several factors, chief among which were: (a) during the earlier period the Soviet economy was still being reconstructed and hence capacity was brought into operation by comparatively little investment; (b) average growing conditions in agriculture were more favorable in 1949 and 1950 than in 1951 and 1953; and (c) the nonagricultural labor force grew less rapidly after 1950 than in the 1948-1950 period. In addition, the rate of growth of Soviet GNP in 1953 was reduced as a result of the adjustments required by the revisions of economic plans introduced in that year.

28. We estimate that in the next two years the rate of growth of the Soviet economy will be about 6 or 7 percent per annum and ~~that~~ in the period 1956-1959 ~~it will decline to~~ about 5 or 6 percent per annum. The higher rate of growth in the next two years is expected to result from the resumption of a high rate of increase in total investment, including additional investment in the traditionally lagging sectors of the economy -- agriculture and consumers' goods industries. On the other hand, the rate of growth in the period 1956-1959 will be somewhat retarded, due mainly to a decline in the rate of growth of industrial production.\* Even so, the estimated average annual growth rate for the entire period 1953-1959 will be nearly double the long-range average annual increase in GNP of the US economy of 3 percent, and substantially above the annual increase of just over 4 percent which the US economy has shown

\* For a discussion of the factors which will work to reduce the rate of growth in industrial production see paragraph 48.

in the 1948-1953 period. If US GNP should continue to increase at a rate of 3 percent per year during the period of this estimate, then the ratio of Soviet to US GNP would increase from about one-third in 1953 to about two-fifths in 1959.

29. Changes in the composition of Soviet GNP will continue to reflect the basic trends in Soviet economic policy. The pattern of Soviet GNP in the period 1948-1952 was marked by a rising trend in the proportions devoted to defense and investment, and a declining trend in the proportion devoted to consumption. Economic programs as modified in 1953 indicate that for at least the next two years the trends in the major sectors of Soviet GNP will be as follows:

- (a) defense, which in 1953 accounted for about 14 percent, will have a <sup>slightly</sup> declining share;
- (b) investment, which in 1953 constituted about 28 percent, will show a slightly rising percentage; and
- (c) consumption, which in 1953 accounted for about 56 percent, will remain at about the same level or may increase very slightly, instead of continuing the decline of previous years. In absolute terms, over the period from the end of 1953 to mid-1956, we estimate that defense outlays will remain about the same, investment will increase about 24 percent and consumption about 21 percent. Per capita consumption by mid-1956 will thus increase by about 1 1/2 percent.

30. If the present pattern of resource allocation in the USSR continues substantially unchanged throughout the entire period of this estimate, then, in absolute terms, consumption for the year 1959

will be about 43 percent greater than for the year 1953 (about 30 percent greater per capita) and total investment about 59 percent greater, with defense expenditures remaining unchanged or slightly increased. We believe the chances are better than even that the Kremlin will continue its economic policy through 1959 along these lines, ~~though probably with numerous minor changes which might appreciably alter the results we have estimated above.~~ *assuming no marked changes in the world situation.* It will always be possible, however, for the Kremlin to make substantial changes in its policy for the allocation of economic resources, favoring one sector of the economy at the expense of others. The Kremlin could, for example, very substantially increase its annual defense expenditures while continuing to achieve an absolute increase in consumption, though this increase would under such circumstances be substantially less than that estimated above.

VII. MAJOR FACTORS AFFECTING SOVIET ECONOMIC DEVELOPMENT

Population<sup>x</sup>

31. By 1949 the Soviet population reached 196 million and was roughly the same as in the same territory in 1940, the natural increase having made up for war losses. Since 1949 population has increased annually by about one and a half percent, representing a net addition of somewhat over 3 million persons per year and resulting in a present (mid-1954) population of nearly 216 million, of

~~\* For a population map of the USSR, see Appendix E, Figure 1.~~ *showing ethnic groups.*

which over 60 percent is rural. The population will continue to grow at a somewhat declining rate during the entire period of this estimate, reaching an estimated total of 223 million in mid-1956 and 236 million in mid-1959. Over the long run, the gradual redress of the sex balance, which presently shows an acute shortage of males, may reverse the present decline in crude rates of natural increase.\*

32. The age-sex composition of the Soviet population will change appreciably during the period of this estimate. During 1954-1956 the number of males available for new military classes should increase somewhat over those available in the preceding three years because of the entry into the military age group of several classes unaffected by losses ~~from war and~~ <sup>during the period of</sup> agricultural collectivization. The male population of military age (15-49) will probably increase in these years as a result of these new entries and because of the movement out of this group of a male population decimated by ~~two world wars~~ <sup>World War II</sup>. Between 1956 <sup>and</sup> 1960, however, the number of males available for new military classes and the number of new workers entering the labor force will increase more slowly than in the previous five years because of the low birth rate during World War II.

\* For a population map of the USSR showing ethnic groups, see Appendix E.

Labor Force

33. The <sup>civilian</sup>~~Soviet~~ labor force has expanded rapidly throughout the postwar period. The total labor force has increased by over 10 million since 1948, bringing total employment (excluding forced laborers) to about 95 million at the present time (mid-1954). In line with past trends, nearly all of the net addition to the labor force went into nonagricultural employment, which now accounts for about 43 million workers. This development reflects the traditional Soviet policy of drawing on the rural population to fill the growing manpower requirements of industry, as well as the successful retention in the urban labor force of large numbers of collective farmers who had been recruited originally for temporary work during the war.

34. The rapid increase in nonagricultural employment has aggravated several major problems facing the regime. On the one hand, the influx of labor into nonagricultural employment has been consistently well above planned levels throughout the postwar period, thus worsening the already severe housing shortage in Soviet cities. On the other hand, the growing disparity between urban and rural living standards after 1948 induced many collective farmers, especially males, to seek nonagricultural employment. This increased the shortage of adult males, particularly specialists, in the agricultural labor force, with resultant adverse effects on agricultural

production. Thus, contrary to official Soviet plans, which implied an increase in the agricultural labor force through 1955, the manpower position of Soviet agriculture appears to have deteriorated somewhat between 1950 and 1953. Consequently, the regime was compelled to direct skilled labor back to the countryside in 1953-1954.

35. The nonagricultural labor force will grow much less rapidly during the period of this estimate than in the preceding five years as the result of several factors, the most important of which are: (a) the new agricultural measures will require a larger increase in the agricultural than in the nonagricultural labor force in 1954-1956, thus reversing temporarily the long-established trend; (b) the amount of labor transferred from rural to urban work will be limited by the availability of housing, ~~social services, and consumer goods~~ in urban areas; and (c) the low birth rate during World War II will reduce the number of new entries into the labor force after 1956. New entries into the labor force are expected to decline from an estimated annual average of almost 1.5 million for 1953-1956 to less than one million per year for the remainder of the decade. The decline in the growth of the nonagricultural labor force will tend to reduce the average annual growth rate of industrial output even if no additional manpower is directed into agriculture after 1956.

TABLE I

Crude Composition of Soviet Labor Force, Mid-1954--Mid-1959  
(in millions)

<u>Category</u>	<u>Mid-1954</u>	<u>Mid-1956</u>	<u>Mid-1959</u>
Agricultural labor	52.5	54.5	54.0
Nonagricultural labor	42.5	43.9	46.0
Total	95.0	98.4	100.0

Scale of Living

36. The scale of living of the Soviet population as a whole has risen steadily since the end of the war, and in certain respects the living scale of large segments of the urban population is somewhat higher now than in the immediate prewar period. The increase in supply of consumer goods to urban areas, although far greater for manufactured items than for foodstuffs, has been principally responsible for the rise in per capita availabilities in the postwar period. Moreover, since 1948 there has been a steady rise in the per capita real income of the urban population as a result primarily of successive annual price reductions. By 1953 urban per capita real income probably exceeded the 1937 level by some 20 percent, but was still somewhat below the 1928 level. On the other hand, postwar construction and restoration of housing,

despite a rise to 17 percent of total investment as compared with the prewar 9 percent, has still barely kept pace with the growth of the urban population, now totalling more than 80 million. Per capita urban dwelling space is still only about equal to the miserably low prewar level.

37. The gains made by urban consumers in the postwar period have not been matched in the Soviet countryside, which contains more than half the Soviet population. Oppressive agricultural taxation and procurement policies have allowed the regime to collect an increasing share of agricultural products for urban markets, even though agricultural production did not rise appreciably between the prewar and postwar periods and actually declined in several categories of foodstuffs. These policies depressed the position of the rural population and contributed to the deterioration in the quality and size of the agricultural labor force.

38. The current program to increase the supply of consumer goods and agricultural products generally represents a more concrete and far-reaching approach to the problem of living standards than others put forward by the regime in the past. Although some of the production goals appear unrealistic, particularly those dependent upon sharp increases in agricultural production, the output of most consumer goods will probably expand sufficiently

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during the period of this estimate to provide a significant increase in per capita consumption. The emphasis in the program on manufactured items and higher quality consumer durables makes it clear that the urban consumer, in particular the higher income groups, will get a substantial share of these gains. On the other hand, the measures that the regime has adopted toward the rural population indicate that a serious effort is also being made to raise living conditions in the countryside. The general improvement in the material welfare of the population will still leave the scale of living in the USSR by the end of the period far below that of most countries of Western Europe. Nevertheless, both the better living conditions and the hope of further improvements will probably tend to generate some <sup>improvement in morale</sup> ~~additional support of the regime~~ among the masses.

39. Allocations for urban housing construction have been increased since Stalin's death and will probably continue to increase during the period of this estimate. Achievements thus far have fallen short of plans, but some gains have been registered, and we believe that there will be a moderate increase in per capita availability of housing in the USSR by mid-1956. Nevertheless, Soviet housing will still be extremely poor by Western standards.

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Labor Productivity and Industrial Efficiency

40. The rapid expansion of the Soviet industrial base over the past quarter century has been accompanied by large increases in industrial labor productivity, reflecting primarily rapid technological progress and large investment in plant and equipment. Immediately after World War II productivity increased with particular rapidity because of the return to operation of unused and damaged plant. Thereafter, according to official Soviet statistics, annual increases in industrial labor productivity declined sharply from 15 percent in 1948 to 6 percent in 1953. *This slower rate of increase*  
~~This decline~~ in recent years has caused the Soviet leaders concern, probably because of their intense desire to close rapidly the large gap in productive power which still exists between their economy and that of the West.

41. The present regime has therefore placed great stress on measures to increase labor productivity and to reduce inefficiency in the Soviet economy. Most important in this connection are the efforts of the regime to improve living conditions and to provide greater incentives for the working population. In addition, a series of organizational and administrative changes designed to increase managerial efficiency have been undertaken. The powers of industrial ministries and their subordinate organs over resource

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utilization have been increased, and greater responsibility has been given to local management. These measures were probably intended to increase managerial initiative and efficiency at both central and local levels without actually relinquishing Moscow's over-all control of the Soviet economy. We believe it probable that the effect of all these measures taken together will be to tend to arrest the decline in the rate of increase of labor productivity.

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Raw Material Supply<sup>1/</sup>

42. The USSR has nearly all the natural resources required to develop further its already strong and modern industrial economy. In general, the production of metals and minerals has been adequate to promote rapid industrial growth and also to permit the accumulation of substantial stockpiles. Some items (e.g., industrial diamonds, natural rubber) are lacking or in short supply within the Bloc, but so far the USSR has been able to acquire sufficient quantities through foreign trade. The natural resource base will not place serious limitations upon the rate of development of the Soviet economy during the period of this estimate, but to support a continued rapid rate of industrial expansion over the long run, increasingly heavier investments in the development of the basic materials industries will have to be made.

Energy Base<sup>2/</sup>

43. The production of <sup>fuel and energy (electricity)</sup> (coal, petroleum, and ~~electric power~~) has grown rapidly in the postwar period, reaching at least double prewar output in 1953. Coal production, which is by far the major

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<sup>1/</sup> For graphs showing trends in the USSR's production of selected industrial raw materials, see Appendix B, Figures <sup>1</sup>/<sub>4</sub> and <sup>2</sup>/<sub>5</sub>.

<sup>2/</sup> For graph showing trends in the USSR's energy production and transport, see Appendix B, Figure <sup>3</sup>/<sub>1</sub>.

of which a monthly average of about 120 vessels aggregating some 700,000 gross registered tons are estimated to be engaged in Communist China's foreign ~~TOP SECRET~~ and coastal trade.

source of fuel and power in the USSR, will continue to maintain a high rate of growth during the period of this estimate. Crude oil production has already almost reached the goal set by Stalin for 1960 ~~1965~~ and, together with refining capacity, will almost certainly be adequate to meet expanding domestic requirements and to permit increased exports. The high priority accorded to electric power production will probably lead to growth rates in this sector substantially higher than those prevailing in industry as a whole. Reserves of coal, crude oil, and hydro-power are adequate to meet the expanding needs of the economy.

#### Transportation

44. The existing and contemplated network and facilities of the Soviet <sup>land</sup> transportation system will almost certainly be adequate to support the requirements of the economy during the period of this estimate. About 85 percent of total freight transported in the USSR is now carried by rail. This proportion will probably not change appreciably during the period of this estimate, despite long-range Soviet intentions to increase the proportion carried by *although some 68% obsolete or obsolescent by Western standards,* other means. The Soviet Bloc merchant fleet, is currently large ~~enough~~ to supply domestic needs, but is inadequate to meet the demands of both domestic and international trade simultaneously. Although the Soviet merchant fleet is scheduled to expand as the result of new construction, primarily in foreign yards, the USSR will continue to rely heavily on non-Communist <sup>S</sup> shipping for international trade, with non-Bloc areas. The Bloc now employs a monthly average of 1,500,000- 2,000,000 gross registered tons of Western shipping, representing about 500 vessels. Expansion of cargo movements will depend more on the continued availability of Western vessels, on improved operating efficiencies, and on availability of repairs, mostly in foreign shipyards, than on expansion of the fl

\* For numbers and tonnage of ships in Bloc merchant fleets, see Appendix D, Table 10.

~~non-Bloc areas. Expansion of cargo movements will depend more on the continued availability of chartered Western vessels, on improved operating efficiencies, and on availability of repairs, mostly in foreign shipyards, than on expansion of the fleet.~~

Stockpiling

45. The USSR operates a stockpiling program which is independent of normal inventory channels and includes a wide range of industrial and agricultural raw materials, manufactured products, and equipment. This program is designed to serve the operational and strategic requirements of the Soviet economy in both war and peace. The highly centralized control system protects stockpiles from dissipation in normal economic operations and insures their immediate availability to the state in a number of contingencies including wartime disruption of the economy, natural calamities like droughts and floods, economic interruptions arising from planning failures and transport breakdowns, and plan changes. Although the levels of Soviet stockpiles are not known, the current Five Year Plan called for the doubling of food and material stockpiles in 1955 over 1950. The change in economic plans in 1953, which provided for increased distribution of consumer goods,

appears to have occasioned substantial releases of foodstuffs from stockpiles. It is not clear whether these releases affected the original plan goals for stockpiling, although the current efforts to extend grain cultivation in marginal areas of the USSR probably reflect the regime's concern over present levels of food stockpiles.

#### VIII. DEVELOPMENTS IN SOVIET INDUSTRY

##### Capital Goods Production\*

46. The distinguishing feature of Soviet Five Year Plans has been the emphasis placed on the heavy industries producing capital goods. During the entire period of forced industrialization investment policy favored building up the capacity to produce capital goods. Capital goods output (excluding production of military end-items) now represents about one-half of total industrial output and its rate of growth has been consistently higher than that of GNP.

47. The addition of new lines of emphasis in the economy has not affected the primary focus of Soviet economic policy on building up the base of heavy industry. Official declarations and

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\* For graph showing trends in the USSR's production of selected capital goods items, see Appendix B, Figure 27

current programs emphasize that goals for the most important capital goods in the 1950-1955 Plan have not been reduced by the new program to raise consumption. The revised goals for consumer goods and agriculture and the magnitude of the supporting investment programs are not on such a scale as to involve a diversion of resources sufficient to interrupt the trend since 1928 toward continuous rapid expansion of heavy industry.

48. Nevertheless, Soviet heavy industry will advance at a slower pace during the period of this estimate than in the previous five years. We estimate that in the next two years the rate of growth of heavy industry will be about 11-12 percent per annum and that in the period 1956-1959 it will decline to about 8-9 percent per annum. These projections are based on: (a) the assumption that military allocations will remain substantially the same; (b) an anticipated decline in the supply of new labor after 1956; and (c) the probability that a somewhat larger share of total investment will be devoted in the next few years to agriculture, and perhaps also to housing.

#### Consumer Goods Production<sup>\*</sup>

49. The production of consumer goods in the postwar period has been largely conditioned by trends in Soviet agriculture and

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\* Includes processed foods.

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in military production. Restoration of the prewar level of consumer goods output was retarded by the slow recovery of agriculture immediately after the war. However, with the aid of good crop years in 1949 and 1950, the production of consumer goods made rapid gains, reaching the prewar level in 1951. Thereafter, gains were much smaller, chiefly because of the diversion of resources from the consumer industries to military production and the slow progress of agriculture.

50. In 1953 the Soviet leaders promised to increase substantially the volume of consumer goods available to the population. The commodities emphasized in the official pronouncements were mainly foodstuffs (raw and processed), textiles, and consumer durables (mostly home furnishings). Subsequently it appeared that only moderate increases over original plan levels were scheduled for basic foodstuffs, textiles, and footwear, the production of which is limited by the supply of agricultural raw materials. Much larger increases are planned for consumer durables, which have traditionally been produced in small quantities. ~~Essentially, as indicated in Table II below, the implementation of this program requires the reversal of the persistent tendency of recent years for the consumption sector of the economy to fall short of its goals as a result of the priority in the allocation of resources to heavy industry and armaments production.~~

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TABLE II

Official Soviet Figures for State Production of Selected  
Consumer Goods  
(percent increase over 1950)

<u>Commodity</u>	<u>Actual Increase thru 1953</u>	<u>Original 1955 Goal</u>	<u>Revised 1955 Goal</u>
Meat	46	92	100
Fish	24	58	83
Butter	13	72	76
Vegetable Oil	41	77	92
Sugar, granulated	36	78	90
Cotton Fabrics	34	61	64
Woolen Fabrics	21	54	62
Canned goods	49	110	122

51. The regime has initiated a series of measures to achieve the revised consumption goals. Planned investment in the light and food industries and in the trade network has been doubled in 1954 over 1953. The heavy industries, which have customarily produced consumer durables as sidelines, have been directed to increase their production of these commodities. Moreover, in 1953 the regime made substantial releases of foodstuffs from stockpiles and increased imports of consumer goods from outside the Bloc.

52. Many of the production goals for consumer goods, particularly durable items, are not greatly out of line with previous achievements. Since production of consumer durables has been low,

it can be rapidly expanded by limited increases in investment and modest diversions of plant capacities. The program in general, however, will be impeded by shortages of agricultural raw materials. If current Soviet economic policies continue through 1959, we estimate that production of consumers' goods will increase at an average annual rate of about 9 percent during the next two years -- considerably short of planned goals -- and about 6 to 7 percent during the latter part of the period. \*

~~in the latter part of the period.~~

Military Goods Production\*

53. Despite the reconversion of Soviet industry after World War II, defense production, as measured by budgetary allotments to defense, remained well above prewar levels. We estimate that beginning in 1949, expenditures on production of military end-items rose at an accelerating rate and increased about 50 percent between 1950 and 1952. When Soviet expenditures levelled off in 1953, they were, as measured in constant ruble values, approximately double those for 1940 and roughly two-thirds those for 1944, the peak year

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\* For graph showing trends in the USSR's production of selected military end-items, see Appendix B, Figure 5.

of World War II expenditures. In the interim, however, the increasing complexity of weapons resulted in higher unit costs and consequently in procurement of fewer items for equivalent expenditure. The USSR now produces, in value terms, more than 95 percent of the Bloc's military end-items.

54. We believe that if the current measures to raise consumption are carried out as planned, and if planned goals for investment in heavy industry are fulfilled, Soviet defense expenditures will have to be limited approximately to present levels, at least through 1955. Judging by the pattern of budgetary allotments, annual military expenditures for 1954-1955 will in fact be approximately the same as for 1952-1953. The Soviet leaders probably recognize that their economy is unable to support the additional heavy investment outlays in industry and the increased requirements of the agricultural and consumer goods program, while simultaneously maintaining such a rapid rate of increase in the production of conventional military goods as prevailed in the Korean War period. Moreover, *maintenance of a constant level* ~~reduction in current levels of~~ *expenditures would* military ~~production does~~ not imply any slackening in the Soviet program in the field of unconventional weapons. It is possible, despite the absence of direct evidence, that the USSR will maintain conventional military production at somewhat lower levels for at least the next few years, but will give increased emphasis to the development of unconventional weapons and new weapons systems.