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*M. Hay*  
NIE 11-3-55  
17 May 1955  
102081-t

NATIONAL INTELLIGENCE ESTIMATE  
NUMBER 11 - 3 - 55

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SOVIET CAPABILITIES AND PROBABLE SOVIET  
COURSES OF ACTION THROUGH 1960

(Advance Copy)

Submitted by the

DIRECTOR OF CENTRAL INTELLIGENCE

The following intelligence organizations participated in the preparation of this estimate: The Central Intelligence Agency and the intelligence organizations of the Departments of State, the Army, the Navy, the Air Force, The Joint Staff, and the Atomic Energy Commission.

Concurred in by the

INTELLIGENCE ADVISORY COMMITTEE

on 17 May 1955. Concurring were the Special Assistant, Intelligence, Department of State; the Assistant Chief of Staff, G-2, Department of the Army; the Director of Naval Intelligence; the Director of Intelligence, USAF; the Deputy Director for Intelligence, The Joint Staff, and the Atomic Energy Commission Representative to the IAC. The Assistant to the Director, Federal Bureau of Investigation, abstained, the subject being outside of its jurisdiction.

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Authority *MR 92-143711*

By *b2* NLE Date *7/9/92*

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CENTRAL INTELLIGENCE AGENCY

17 May 1955

NIE 11-3-55: SOVIET CAPABILITIES AND PROBABLE SOVIET COURSES  
OF ACTION THROUGH 1960

CONCLUSIONS

General

A. The totalitarian character of the Soviet political system is unlikely to be altered in any important respect during the period of this estimate. It appears that a struggle for personal power, probably in a context of differences over policy, has been going on within the small ruling group and is as yet unresolved. Although this struggle may be sharpened during the period of this estimate, we continue to believe that it will be confined to the small group at the apex of the power structure, and will not result in open violence involving the police or military forces. (Paragraphs 1-5)

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B. The relations between the USSR and Communist China are probably now conducted as between allied powers having common interests and a common ideology, but also separate and potentially conflicting national objectives. Despite the possibility of some frictions between the two countries, they will almost certainly maintain a relationship of close alliance throughout the period of this estimate. The continuing dependence of Communist China on the USSR for support of its military and economic programs gives the USSR great influence over Chinese policy, but this would probably not be decisive in matters which the Chinese believed involved their own vital interests.<sup>1/</sup> (Paragraph 11)

Economic

C. Soviet economic policy during the period of this estimate will almost certainly be directed primarily toward a continued rapid growth of basic economic and military strengths and the maintenance

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<sup>1/</sup> The representatives of the Director of Naval Intelligence and the Deputy Director for Intelligence, The Joint Staff, consider that this paragraph overstates the degree of independence which Communist China enjoys in matters of major policy. They believe, therefore, that the last clause should be deleted, and the following substituted: "We believe therefore that the Soviet leaders would almost certainly be able to apply sufficient pressure, including the curtailment, and if necessary the withdrawal, of economic and military aid, in order to obtain Chinese conformity to Soviet views."

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of high peacetime levels of military production. Heavy industry will continue to be the primary focus of Soviet economic activity. (Paragraph 20)

D. The rate of growth of the Soviet economy has been declining in recent years and will continue to decline during the period of this estimate. We estimate that the annual increase in Soviet gross national product (GNP) by 1960 will probably be slightly less than five percent, compared to a seven percent increase in 1954. Although absolute defense expenditures apparently are to increase markedly in 1955 over 1954, we believe that they will probably increase henceforth at a slower rate and will be about 15 percent higher in 1960 than in 1955. (Paragraph 22)

E. The expansion of agricultural production and the procurement of foodstuffs for the cities are problems which will continue to plague Soviet leaders during the period of this estimate. Some of the more recent agricultural measures like the new lands program and the corn cultivation campaign appear to be less realistic than the measures announced earlier. Although the results achieved will almost certainly fall far short of plans for a nearly 100 percent increase, we estimate that, with average weather conditions there

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will be approximately a 30 percent increase in agricultural production in 1960 over 1954. Per capita consumption will probably rise, although at a rate far more modest than that held out to the people in the government's statements of 1953. (Paragraphs 36-41)

F. We estimate that in 1960 Soviet GNP will be roughly two-fifths that of the US, as compared with about one-third in 1954; however, the US economy will probably continue to draw ahead in absolute terms, the dollar gap between the two economies increasing from \$228 billion to about \$269 billions. The USSR allocates an exceptionally large volume of resources to investment and defense -- in the case of investment about four-fifth and in defense about one-half the amounts allocated to these sectors in the US economy. (Paragraph 21)

G. The Soviet regime will, in the pursuit of its objectives, continue to face difficult choices in resource allocation. On the one hand, increasingly heavy investment outlays will be needed in order to maintain high rates of economic growth. On the other hand, military requirements constitute the chief competitor for the resources on which investment must draw. Consequently, if the

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Soviet regime should choose to increase military expenditures at a rate substantially higher than we have estimated in paragraph D above, a reduction in the rate of growth of the economy as a whole and in consumption levels would result. (Paragraphs 22, 35)

Military

H. We believe that, generally speaking, the personnel strength of Soviet and other Bloc forces will remain substantially unchanged during the period of this estimate. However, the over-all effectiveness of these forces will increase, mainly because of the following factors:

- a. Introduction into the Soviet Air Force during the present year of supersonic interceptors, jet heavy bombers, and four-engine turbo-prop aircraft, possibly heavy bombers. An increase in the number of all-weather fighters and jet medium bombers;
- b. A great increase in numbers of nuclear weapons, and in the range of yields derived from these weapons;
- c. A great increase in the number of long-range submarines;

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- d. Generally improved and modernized weapons available to Soviet ground forces, together with changes in organization and tactics designed to adapt these forces to nuclear warfare.

If the USSR in fact develops the guided missiles which we estimate to be within its capabilities, these will provide a significant increment to over-all Soviet military effectiveness. (Paragraphs 76, 117)

I. At present the main Soviet offensive strength lies in the capability to mount large-scale ground attacks against Western Europe, together with air attacks against Western Europe and the UK and an extensive submarine campaign to disrupt the flow of reinforcements and supplies from North America. During the period of this estimate the additions to Soviet air strength listed above will increase very markedly the ability of the USSR to launch air attacks against distant targets, including the continental US. The growing submarine force will also pose a greatly increased threat to allied naval forces and shipping. (Paragraphs 106,107,111)

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J. During the period of this estimate the Bloc air defense system will probably be substantially strengthened by greater operational experience and by the introduction into operational units of new fighter types (including all-weather), new antiaircraft weapons, improved early warning and GCI equipment, and guided missiles. However, in view of the increasing capabilities of offensive weapons and improved techniques in countermeasures, Soviet air defense capabilities will probably remain inadequate to prevent attacking forces from reaching critical target areas of the USSR. (Paragraph 110)

K. The chief limitations on Soviet armed forces are likely to arise from the vast size of the USSR, the great distances from main interior sources of supply to several main operational areas, the relatively inadequate road and rail network, and the acute shortage of Bloc-registered shipping. The Soviet rail system would be vulnerable to air attack in general war, and Soviet armed forces would eventually suffer logistical difficulties, and especially in operations in the Far East. Other deficiencies during the period of this estimate will probably be in experience and training for long-range air operations, and in certain equipment for air defense,

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together with lack of capability for long-range amphibious and surface naval operations. The questionable political reliability and relatively low combat effectiveness of many of the Satellite forces will continue to limit their usefulness to the USSR, especially for offensive operations. (Paragraphs 76, 77, 97)

Probable Courses of Action

L. We believe that the principal immediate objectives of Soviet external policy during the period of this estimate will be (1) to promote the political and economic instability of non-Communist states, and to render them incapable of decisive action by fostering and exploiting neutralism and dissensions within and among them; (2) to bring about the withdrawal of US power from its present advanced bases around the periphery of the Bloc; (3) to impede or offset the rearmament of West Germany and its association with the Western Powers; and (4) to detach Japan from the sphere of Western influence and encourage its closer association with the Sino-Soviet Bloc. At the same time the USSR will continue to pursue its fundamental aim of expanding Communist influence and, as opportunities develop, of extending the area of Communist control. (Paragraph 131)

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M. The Soviet leaders probably now believe (1) that general war would present formidable hazards to the survival of their system, and (2) that they can make progress toward their objectives by political action, and in some cases by localized military action. Therefore, we believe that during the period of this estimate the Kremlin will try to avoid courses of action, and to deter Communist China from courses of action, which in its judgment would clearly involve substantial risk of general war. The Soviet leaders are unlikely to believe that Soviet, Communist Chinese, or European Satellite forces can be used in open attacks across recognized state frontiers during this period without running such a risk. However, the USSR or one of the Sino-Soviet Bloc countries might engage in indirect aggression or take action which would create a situation in which the US or its allies, rather than yield an important position, would take counteraction which could lead to general war. 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. This, general war might occur during the period of this estimate as the climax of a series of actions and counteractions, initiated by either side, which neither side originally intended to lead to general war. (Paragraph 132)

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N. We believe that the USSR will, despite the growth of its nuclear capability during the period of this estimate, continue to try to avoid substantial risk of general war, since the Soviet leaders will probably still not be confident that they could attack the US with nuclear weapons without exposing the USSR to an even more devastating counterblow. However, as their nuclear capabilities grow, Soviet leaders may come to estimate that the US, because of fear for itself or for its allies, or because of pressures exerted by its allies, will be increasingly deterred from initiating the devastation entailed in a full-scale nuclear war. They may therefore come to believe that local wars will be less likely than at present to expand into general war, and thus that superior Bloc military capabilities in certain local areas can be exercised without substantial risk of provoking general war. (Paragraph 134)

O. We believe that Soviet diplomacy during the period of this estimate will not be directed toward a general settlement between the USSR and the West. It will almost certainly continue to combine moves intended to ease international tensions with other moves which increase such tensions, and with political warfare pressures calculated

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to play upon the non-Communist world's fear of war. At present the USSR is engaged in very active diplomacy on a number of important issues -- Austria, disarmament, Yugoslavia, Japan -- and has made important concessions, though no apparent important sacrifices as yet. We believe that the current Soviet diplomatic efforts are directed primarily toward preventing the rearmament of Germany in close alliance with the West, and that the ground is being prepared for new Soviet proposals on this subject, perhaps at Four Power meetings during this summer. We also believe that in connection with the forthcoming peace treaty negotiations with Japan the USSR is likely to make some concessions in the hope of promoting frictions in the relations of Japan with the US and encouraging Japanese neutralism.

P. It is possible, however, that the Soviet leaders also desire a substantial and prolonged reduction in international tensions that would not only prevent German rearmament but also further their other objectives, including US withdrawal from advanced bases and a reduction of the incentive for the West to maintain its present defense efforts.

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The Soviet leaders may also feel that such a reduction of international tensions is desirable because of the pressure of their own internal problems.

Q. The principal objective of Soviet policy in Europe is to obtain a solution of the German problem favorable to Soviet interests. Prevention or slowing down of West German rearmament and blocking the development of West Germany's ties with the NATO powers have first priority. To achieve these aims, Soviet policy will almost certainly make great efforts to influence the situation in West Germany itself. The Soviet leaders probably calculate that by sedulous encouragement of German hopes for unification they can, for a limited time, increase neutralist feeling in West Germany, complicate the relations of the West German Government with its NATO partners, and undermine unity of purpose within the NATO alliance. The settlement of the Austrian problem, together with the recent Soviet proposals on disarmament and the current advances to Yugoslavia, may indicate a Soviet willingness in the course of further negotiations, to give up control of East Germany in exchange for a guaranteed neutralization of united Germany and a Soviet share in international control over German armament. We

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believe that the chances of such a development are less than even.<sup>2/</sup>  
(Paragraphs 138, 139, 142)

R. If such measures did not, in the Soviet view, succeed in countering the developing threat of West German rearmament, we believe that the USSR would turn to more rigorous policies, including a sharp build-up of Soviet and Satellite military capabilities. They might also adopt more threatening courses of action against Berlin, or in the Far East, or elsewhere, with the purpose of arousing fear of nuclear war in the West and causing Western peoples to demand that their governments pursue a cautious policy. We believe that even at this stage the USSR would still avoid courses of action which in its judgment clearly entailed the probability of general war.

(Paragraph 141)

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<sup>2/</sup> The Special Assistant, Intelligence, Department of State, believes that the estimate contained in the last sentence of this paragraph should read: "We believe that the likelihood of such a development is small, primarily because it seems to us that its uncertainties and disadvantages, from the Soviet point of view, would far outweigh its advantages."

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S. We believe that the USSR is in substantial agreement with Chinese Communist objectives to destroy the Chinese Nationalist Government and to gain control of all territory held by it. The primary Soviet interest in issues arising in the area of the Formosa Strait is to exploit them in such a way as to sow distrust of the US among neutral nations and to promote a maximum of discord between the US and its allies. We believe that Moscow might see certain advantages in clashes between Chinese Communist and US forces, provided it believed that the clashes would be limited and localized. However, we also believe that the USSR will seek to restrain Peiping from adopting policies which in the Soviet view would carry grave risks of major hostilities between the US and Communist China since the Soviet leaders probably believe that such hostilities would also entail grave risk of Soviet involvement. (Paragraph 145)

T. The Soviet leaders probably consider that if major hostilities between Communist China and the US should occur, the USSR would be presented with extremely grave choices. They would probably give the Chinese Communists support in weapons and material, and the scale of this aid would probably increase in proportion to the threat to the Chinese Communist regime. As hostilities expanded

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and the threat to the Chinese Communist regime increased, they would probably engage Soviet forces in defensive operations, to the extent that they felt they could plausibly deny such involvement. Should the conflict progress so far that destruction of the Chinese Communist regime appeared probable, we believe that the Soviet leaders would recognize that open intervention on their part sufficient to save the Chinese regime would involve extremely grave risk of general war with the US with its consequent threat to the survival of the Soviet system. In deciding upon a course of action, the Soviet leaders would have to weight the strengths which they could bring to bear in the struggle against those which would be opposed to them, and the dangers to their own regime of a possible global war with the US against the strategic and psychological consequences to them of destruction of the Chinese Communist regime. We believe, on balance, they would conclude that loss of the Chinese Communist regime would be sufficiently damaging and final to cause them to resort to open intervention to save that regime.<sup>3/</sup> (Paragraph 146)

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<sup>3/</sup> The Director of Naval Intelligence, and the Deputy Director for Intelligence, The Joint Staff, believe that the last sentence overstates the willingness of the Soviet leaders to risk their own regime and would substitute for the last sentence:

"On balance, we believe that they would not consider the elimination of the Chinese Communist regime sufficiently damaging, or final, to warrant the risk to their regime which open intervention would entail."

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U. Southeast Asia will almost certainly appear to the USSR to be the most profitable field for the extension of Communist influence, at least during the early period of this estimate. The Soviet leaders will probably continue, in concert with Communist China, to support Communist subversive activities, and possibly localized military action if circumstances are favorable. (Paragraph 147)

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CENTRAL INTELLIGENCE AGENCY

SUBJECT: NIE 11-3-55: SOVIET CAPABILITIES AND PROBABLE SOVIET COURSES OF ACTION THROUGH 1960

THE PROBLEM

To examine the political, economic, scientific, and military strengths and weaknesses of the USSR and to estimate probable Soviet courses of action through 1960.

DISCUSSION

I. INTERNAL POLITICAL DEVELOPMENTS

1. The Soviet political system continues to exhibit the essential features which it acquired during the period of Stalin's ascendancy, even though power appears now to be exercised by a small group rather than by a single man. Its totalitarian character, resting on the

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monopoly of political power held by the small group composing the Communist Party Presidium, remains unaltered by developments since Stalin's death. We think it extremely unlikely that in the period through 1960, despite possible shifts in leadership and policies, the nature of the Soviet political system will change in any important respect.

Problem of Leadership

2. Since Stalin's death there has clearly been an unstable situation at the top level of the Soviet power structure. The elimination of Beria and the demotion of Malenkov, together with a number of similar actions against lesser personalities, indicate that the division of power and influence posed a serious problem for Stalin's heirs. It seems unlikely that this problem has yet been resolved, despite Khrushchev's apparent rise to a position of primacy. It is not yet clear whether his position as Party First Secretary, the key position Stalin used to gain absolute power, will enable him to acquire a similar domination over his colleagues in the Party Presidium. Prime Minister Bulganin and other veteran

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members of this body like Molotov, Kaganovich, and Mikoyan, all of whom hold high governmental positions, are probably not eager to submit to the renewed domination of one man. Alignments among the top leaders, their relative power and influence, or the following that each may have within the Party and Government apparatus are unknown. For the present, major personnel and policy decisions are probably still subject to negotiation among them. There may be factional jockeying for some time, although we incline to the view that sooner or later the Soviet system will revert to a personal dictatorship. This may occur within the period of this estimate.

3. The personal power struggle has probably been taking place in a context of differences over policy. Strongest evidence of such differences has appeared in connection with the agricultural program, and in particular concerning the most effective methods of increasing agricultural production. On other issues the evidence of divergent views is far less clear, but the Soviet leaders may also have disagreed among themselves concerning the allocation of resources among the defense, investment, and consumption sectors of the economy. Except on agricultural problems, however, the Soviet leadership has not publicly exhibited differences of view within its ranks.

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4. The struggle over power and policy may be exacerbated during the period of this estimate, unless one of the leading figures succeeds in acquiring a clear dominance in the Party Presidium. As death or ill health thin the ranks of the veteran members of the Presidium, who have probably up to now been able to check the rise of any aspirant to the full array of Stalin's power, the problem of co-opting younger proteges may become acute. Moreover, the issues of policy likely to develop during the period of this estimate, will present hard choices, the resolution of which may sharpen the struggle for personal power.

5. We continue to believe, however, that the struggles over personal power and policy will be confined to the small group at the apex of the power structure and will not result in open violence involving the police or military <sup>forces</sup> organs. We do not believe that the police or military establishments are likely within the period of this estimate to participate as independent factions in the contest over power and policy. They are effectively controlled by the Party, both openly and through penetration by agents, and their leaders are probably too involved in conflicting personal

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loyalties and factions outside the professional group to permit independent political action. However, to the extent that issues affecting spheres of activity of the army and police divide the top Soviet leadership, the bureaucratic and professional point of view, particularly of the army, may have a greater influence on policy decisions.

6. Serious and prolonged instability within the top leadership would probably impair the efficiency of the Party and State administration. Insecurity and uncertainty might reach serious proportions if a rapid series of removals, accompanied by charges of disloyalty and trials of those unseated, occurred within the top leadership. In this case the regime might have as much difficulty in carrying out as in reaching its policy decisions. However, the Soviet leaders are certainly aware of these problems of effective administration in their totalitarian state and will be concerned to prevent their personal struggle for power from degenerating into widespread purges which might cause a deterioration in the administrative apparatus. On balance, we think that the regime will surmount dangers of this kind.

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Relations Between the Soviet People and the Regime

7. The post-Stalin leadership has clearly given increased attention to the attitudes of the Soviet people toward the regime, and in particular it has been concerned to improve morale and to cultivate more positive attitudes toward its goals. Despite the decline in emphasis on the consumer goods program, the regime has not explicitly repudiated the promises made to Soviet citizens in 1953. It will probably maintain the effort to raise living standards to the extent that current defense and investment programs permit. It probably still intends to limit arbitrary and terroristic actions by the secret police as much as it feels is compatible with safety.

8. During the period of this estimate, the attitude of the Soviet people toward the regime will continue to be characterized more by apathy than by dissidence. It is unlikely that the promises made in 1953 to raise living standards, or even the limited fulfillment which followed, have aroused demands and expectations dangerous to the regime. The policies of the regime are likely to be successfully calculated to allay active discontent and at the same time to check excessive demands. However, if there should

be such a conspicuous failure of current agricultural programs as to lead to a decline in food supplies, or if the regime should be obliged to resort to greater pressures on the peasantry to extract the foodstuffs essential to feed the cities, a serious deterioration in public attitudes toward the regime might result. Such a development during the period of this estimate would be unlikely to threaten the security of the regime.

9. The attitude of the Soviet people toward the particular dangers of nuclear war is difficult to gauge. Only within the last year has the regime begun to make some information available, and this has been for a limited, largely military, audience. For civil defense purposes, an intensive public information program would appear to be necessary. Even if this is <sup>undertaken</sup> done, popular fears are unlikely to limit the freedom of action of the USSR in a diplomatic crisis in anything like the same degree as would be true for the Western Powers. Nevertheless, the desire to avoid war is strong and articulate in the Soviet people, and the regime, despite its ability to distort and obscure the meaning of events by propaganda, must to some extent adapt its policies to this

attitude. It may be obliged to do so in greater degree when the facts of nuclear warfare become better known to the Soviet people. 1/

II. THE USSR'S RELATIONS WITH OTHER COMMUNIST BLOC STATES

Sino-Soviet Relations

10. Sino-Soviet relations within the last year have been marked by a continuing enhancement of Communist China's status within the Communist Bloc. This was shown by the visit of the Soviet . . . delegation in September-October 1954, by the agreements announced in the 11 October communique restoring Port Arthur and certain joint enterprises to Chinese control, and by the more recent association of Communist China with Communist policy in Europe in opposition to West German rearmament. The trend toward greater Chinese independence from Soviet tutelage probably was inevitable in view of the growing power of the Chinese regime and the international prestige it derived

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1/ There will be a fuller discussion of the issues raised in this paragraph in a forthcoming estimate, NIE 100-55, "The Probable Effects of Increasing Nuclear Warfare Capabilities upon the Policies of Selected Countries."

from the Korean War and from Communist successes at the Geneva Conference. Communist China is coming to be accorded a formal status within the Communist world more nearly equal to that of the USSR.

11. The relations between the USSR and Communist China are probably now conducted as between allied powers having common interests and a common ideology, but also separate and potentially conflicting national objectives. Communist China continues to be dependent on the USSR because only through Soviet aid can it maintain or expand a modern military establishment and because its industrialization program is also geared to Soviet support. This dependence gives the USSR great influence over Chinese policy, but it would probably not be decisive in matters which the Chinese believed involved their own vital interests. The USSR probably would not apply so serious a sanction as withdrawal of economic and military aid in order to obtain Chinese conformity to Soviet views, since to do so would seriously threaten the relationship. 2/

Footnote \* The Director of Naval Intelligence and the Deputy Director for Intelligence, The Joint Staff, consider that this paragraph overstates the degree of independence which Communist China enjoys in matters of major policy. They believe, therefore, that the following should be substituted for the last two sentences:

"The Continuing dependence of Communist China on the USSR for support of its military and economic programs gives the USSR great influence over Chinese policy. Through manipulation of the various pressures which they can exert, the Soviet leaders would probably be able to forestall any development in Chinese policy which they believed would involve a serious conflict with Soviet vital interests. However, if such a conflict should arise, we believe that the Soviet leaders would be prepared to apply these pressures to whatever extent they deemed necessary, even to the point of withdrawal of military and economic aid, in order to obtain Chinese conformity with Soviet views."

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12. The USSR and Communist China will almost certainly maintain a relationship of close alliance throughout the period of this estimate, despite the possibility of some frictions between them. The USSR will continue to sell or grant military and capital goods to China but will almost certainly not meet Chinese demands to the extent of overtaxing the Soviet economy. Soviet policy may take a more cautious view than the Chinese of the risks appropriate to the pursuit of Communist objectives in Asia. Some issues will probably cause hard bargaining between the two partners, but not to the extent of endangering the alliance. The interests of both, as well as the ideological gulf which separates both from the non-Communist world, will continue to dictate a <sup>policies</sup> joint policy of hostility against the West. The contribution which each makes to the military security of the other may assume even greater importance if the Western alliance is able to add substantial military power in Germany and Japan to its present strength. These considerations, at least during the period of this estimate, will almost certainly outweigh any frictions in the Sino-Soviet relationship.

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Soviet-Satellite Relations

13. The USSR's relations with its Eastern European Satellites involve problems of control rather than of negotiation. Effective direction and surveillance of the small corps of Party carecrists in each of the Satellite regimes, together with the presence or proximity of Soviet military forces, have been enough to insure Soviet control. This system does not appear to have lost any of its effectiveness despite the economic difficulties encountered in most of the Satellites during the last two years, and despite the uncertainties Satellite leaders have apparently felt about who among their Moscow preceptors might win the contest for power going on there.

14. There have been two developments of purely external significance not affecting the substance of Soviet control, but which are nevertheless suggestive of the form which that control is likely to take in future. One of these has been the withdrawal of the USSR from the direct forms of exploitation exemplified by the joint stock companies which held important economic assets in several of the Satellites. To replace direct Soviet control through bilateral arrangements it is intended apparently to link

all the Satellite economies more closely with each other and with the USSR by a greater degree of joint economic planning in the new Five-Year Plan period 1956-1960. The other organizational development of importance is the recently announced collective defense and joint command structure which will replace the bilateral military arrangements the USSR has had with each of the Satellites. In both the economic and military fields therefore there is likely to be during the period of this estimate a development toward multilateral forms of organization and planning. The result will probably be closer integration and more efficient Soviet direction and control of the Satellite area as a whole.

15. Popular resistance of an organized and active kind is unlikely to appear in any of the Satellites during the period of this estimate. Disaffection showing itself in noncooperation in economic fields and even passive resistance might increase in some of the Satellites if there should be further serious deterioration in living standards. The USSR would intervene with force or by grants of economic aid to check any development of this kind which it believed threatened the security of any Satellite regime. The USSR's actions in the Satellite area will be based on the assumption that effective Soviet control there is an essential security requirement.

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### III. DEVELOPMENTS IN THE SOVIET ECONOMY

#### SOVIET ECONOMIC POLICY

16. The fundamental characteristics of Soviet postwar economic policy have been emphasis upon a rapid rate of capital accumulation, maintenance of high levels of military expenditure, and the direction of the major share of new capital to heavy industry. There has recently been added a basic and probably enduring concern for the expansion of Soviet agricultural production, as a result of its continued failure to keep pace with the requirements of population growth and industrial production. In 1953 marked attention was given to consumer welfare and to agricultural problems. However, during 1954 and the early months of 1955 there was a reduction of emphasis on the numerous promises to raise standards of living which were made in official pronouncements in 1953, but the emphasis on agriculture, which was the keystone of the 1953 plan revisions, has continued with increased intensity. There was also a reaffirmation of the central role of heavy industry as the necessary foundation for the entire Soviet economy, including the consumption sector. Reductions in explicit military outlays in 1953 and 1954 are roughly

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restored to the 1952 level in the 1955 Soviet budget.<sup>3/</sup> This increase of military outlays is apparently to be achieved by a reduction in the rate of growth of consumer goods activity and capital investment.

17. The 1955 budget gives little information on details of the current investment program, but it does indicate that investment in heavy industry will increase about four percent and over-all investment expenditures will decrease about one percent from the level planned for 1954. Announcements of some aspects of investment in agriculture indicate increases of as much as 10 percent over the record 1954 level. Nevertheless, total investment in the sectors of the economy related to consumption will be reduced from the levels planned for 1954. These reductions will probably still leave an investment program for these sectors substantially above the 1953 outlay and in most cases above the levels actually achieved in 1954.

18. The traditional Soviet policy of concentrating economic decisions in the central party and government apparatus in Moscow was slightly modified during 1953, and has been further modified during 1954 and early 1955. Although the central apparatus continues to make the basic decisions in economic planning, a large

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<sup>3/</sup> The explicit military expenditures in the Soviet budget do not include the outlays for atomic energy and for most military research and development. Expenditures on plant and tooling in any given year <sup>also</sup> appear elsewhere in the budget, but these expenditures are believed to be charged against defense outlays in subsequent years.

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share of the detailed work necessary to implement plans has been transferred from Moscow to regional ministries and local plant managers in the case of manufacturing and to local (raion) committees in agriculture. Manufacturing and agricultural enterprises have been given the responsibility, and have even been encouraged, to use local materials and techniques,

and to make their own arrangements for the purchase of these materials. There have been large-scale reductions in reporting requirements and in clerical and administrative personnel of both the central and the local governmental apparatus. Individuals released from these positions have been largely transferred to production responsibilities, particularly in agriculture.

19. The foreign economic policies of the USSR, although not significantly modified, have been somewhat reoriented during 1953-1954. Soviet foreign trade has always been directed to the expansion of Soviet influence and to the long-run objective of achieving economic self-sufficiency. In the past, the Soviet economy has not been in a position to accomplish much toward the former objective. At present, however, the increased size and diversity of the Soviet economy and the coordination of the European Satellite

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... economies gives the USSR a supply of goods and trained personnel with which it may attempt to increase its economic influence upon the free world. Increases in Soviet offers of technical assistance, particularly in Asia, and extension of the geographical distribution of foreign trade in 1954 indicate of Soviet intent to use its industrial economy to extend its political influence as well as to build up its own political, military, and economic strength.

20. Assuming there is no war and in the Soviet view <sup>substantially</sup> no increased danger of war, Soviet economic policy in 1955-1960 will be directed toward achieving a continued rapid growth of basic economic and military strength and at the same time, as far as is compatible with this objective, a steady improvement in the well-being of the general population. This latter improvement will almost certainly be at a rate far more modest than that held out to the people in the government's statements of 1953. Heavy industry will continue to be the primary focus of Soviet economic activity. Capital investment will continue to absorb a slightly increasing share of Soviet output. Defense expenditures<sup>4/</sup> will probably increase moderately as the cost of production, development, and maintenance of modern military equipment increases.

<sup>4/</sup> In this and the following paragraphs, Soviet "defense expenditures" have been estimated on such a basis as to permit comparison with those of the US; i.e., they include explicit budgetary appropriations to the Ministry of Defense, plus estimated outlays for research and development, atomic energy, MVD paramilitary forces, military education, and some military construction.

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A concerted effort will be made to increase agricultural production. A slight increase over 1954 levels of production of housing and other durable consumer goods is also likely in the period 1955-1960. Consequently, a somewhat more balanced production effort in terms of the entire Soviet economy can be expected. Such an effort would result in growth of per capita consumption of the Soviet people at a fairly constant rate, although at a rate considerably slower than that which will obtain for the <sup>growth of the</sup> economy as a whole.

Soviet Economic Growth

21. Soviet gross national product <sup>5/</sup> (GNP) increased by almost seven percent in 1954, as compared with a gain in 1953 of about 3.5 percent; the latter rate was abnormally low for the USSR, because of a poor crop year and the plan revisions then taking place.

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<sup>5/</sup> Figures for gross national product (GNP) provide the most concise and convenient means of describing the size and composition of the economy of a nation, and (in a rough way) of comparing it with other national economies. However, considerable technical difficulties arise in calculating the GNP of any country. In the case of the USSR, the limited nature of the available data makes calculation and interpretation especially difficult. For these reasons the quantitative 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 general trends in the Soviet economy.

The 1954 level of Soviet output -- about \$129 billion -- was approximately one-third that of the US at \$357 billion. A breakdown of Soviet and US gross national product by end use is presented in Figure 1. <sup>6/</sup> From this Figure it may be seen that, in dollar values, the USSR allocates to consumption only about one-fifth as much as the US, although its population is 30 percent larger. Moreover, while the USSR devotes larger proportions of GNP to defense and to investment than does the US, the actual amounts thus allocated are considerably less -- in the case of defense about one-half, and in investment about four-fifths of the US figures. This manner of allocating resources gives some indication of why the USSR, with its smaller national product, has nevertheless been able to build a large industrial economy and military establishment within a relatively short period of time.

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<sup>6/</sup> In order to compare Soviet GNP with that of the US, ruble estimates have been converted to dollars by using appropriate ruble-dollar ratios for the various sectors of the Soviet economy. Only one set of GNP figures in dollars is presented in this estimate. It should be noted, however, that the deficiencies in the basic data on the USSR, the fact that different methods of valuing output can be used with equal validity, and the latitude of judgment involved in converting ruble figures into dollars permit alternative estimates of the size and composition of Soviet GNP. For instance, an alternative calculation of Soviet GNP gives the following results:

	<u>Billion 1954 Dollars</u>	<u>Percent</u>
Consumption	54.1	41.7
Investment	36.5	28.2
Defense	23.8	18.4
Administration	15.2	11.7
Total	<u>129.6</u>	<u>100.0</u>

Such differences as these do not materially affect either the discussion of economic growth presented above or the general conclusions regarding the size and structure of the Soviet economy, but they would affect the analysis and interpretation of some of its more detailed aspects.

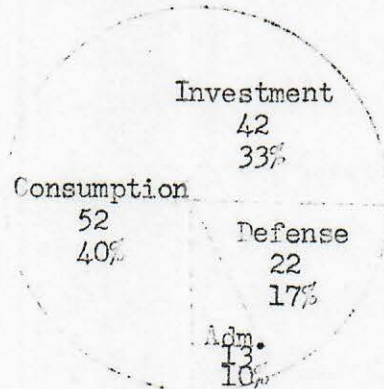
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Figure 1

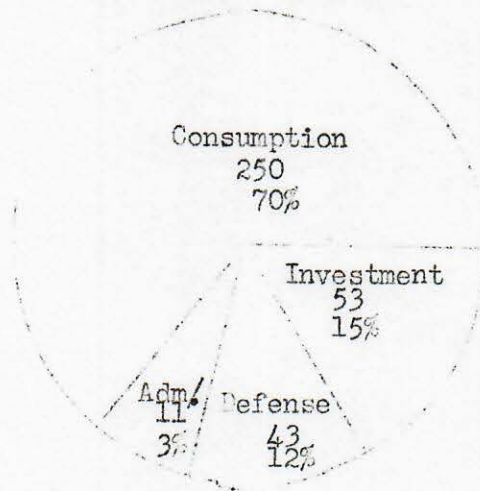
US and USSR

Comparison of Gross National Products, 1954  
(By End Use)

USSR  
129 Billion 1954 Dollars



US  
357 Billion 1954 Dollars



NOTE: In interpreting the figures for Soviet and US defense expenditures, it should be noted that the value data presented do not necessarily reflect the volume of armaments production (in terms of physical units, fire power, tonnage, etc.) and do not show the amounts or proportions of gross investment which are indirectly related to military production.

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22. The rate of growth of Soviet GNP has been declining in recent years largely because of the declining productivity of additional units of capital investment in industry, but also because of the stagnation in agriculture and the heavy burden of military expenditure. We believe that increasing investment in Soviet agriculture, where the productivity of labor is very low, a slowing down of investment in consumer manufacturing industries, where labor productivity is relatively high, and a reduction in the rate of increase in the labor force will tend to continue the recent declines in the rate of growth. We estimate, therefore, that the average annual increase in Soviet GNP by 1960 will probably be slightly less than five percent, compared to the seven percent increase in 1954. Accordingly, we estimate that Soviet GNP in 1960 will be about \$183 billions and US GNP about \$452 billions. To sustain this estimated rate of growth, investment must increase as a proportion of total product while consumption, defense, and administration decline. Although absolute defense expenditures apparently are to increase markedly in 1955 over 1954, restoring them to about the 1952 level, we believe that they will probably increase henceforth at a slower rate, and will be about 15 percent higher in 1960 than in 1955. This figure compares with an

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increase of about 50 percent in investment and a GNP increase of about 35 percent. Soviet investment expenditure, concentrated as it is in the heavy and machine industries, constitutes in itself a direct support for a future expansion of military effort.

23. The estimated rate of economic growth in the USSR implies an increase in the ratio of Soviet to US output. Soviet GNP in 1960 will probably be about 40 percent that of the US. However, the US economy will probably continue to draw ahead in absolute terms, the dollar gap between the two economies increasing from \$228 billions to about \$269 billions. (See Figure 2) There will be a similar relationship between the gross outputs of the NATO countries taken as a whole and that of the Sino-Soviet Bloc. The absolute gap of \$425 billions in 1954 will probably widen to about \$509 billions in 1960.

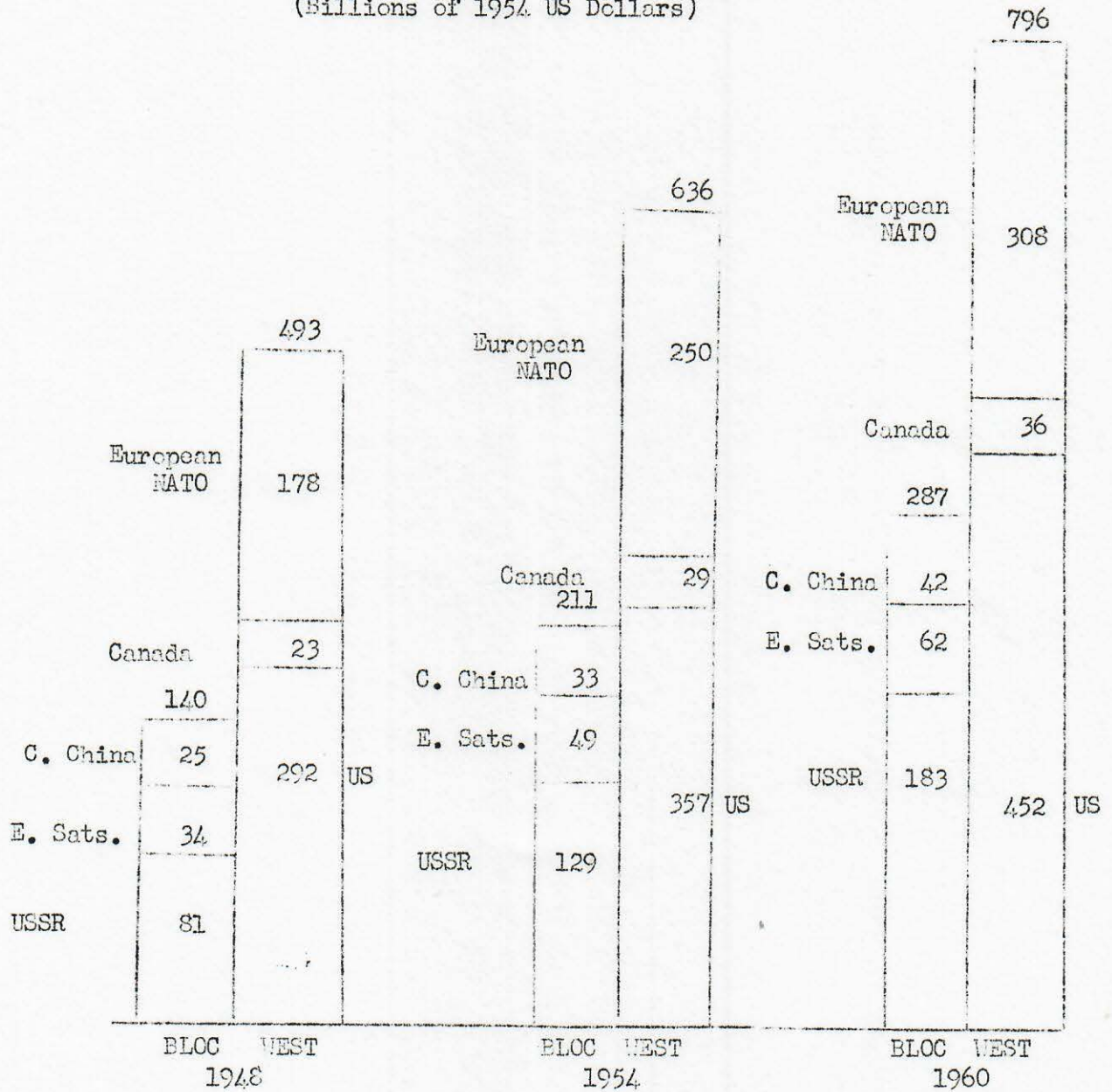
24. Our estimates of Western product for 1960 are based upon historical patterns of economic growth in the West. Our estimates for Sino-Soviet Bloc output in 1960 are based on the assumption, which we believe reasonable, that the Bloc will pursue a pattern of resource allocation comparable to that presently existing and

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Figure 2

Soviet Bloc and West  
Comparison of Gross National Products  
(Billions of 1954 US Dollars)



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apparently planned for the future. Both the Western countries and the Sino-Soviet Bloc have the capability to alter the pattern of resource use drastically, and thereby to alter the final composition and value of the product. The capability of the West, and especially of the US, to do this is greater than that of the Bloc because of the higher Western product in proportion to population. However, large shifts in the pattern of resource use cannot be as quickly or as easily made in the West as in the USSR where the economy is closely controlled and industry is designed for maximum convertibility to war purposes. If the Bloc and <sup>the West</sup> /continue to maintain full employment, considerable changes in the composition of <sup>their respective</sup> /outputswould have little effect on their total volume of output in so short a period. Should either fail to maintain full employment, the volume of output would be considerably reduced.

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