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SUB-COMMITTEE ON SOVIET ECONOMIC POLICY

RELATIVE ECONOMIC PROGRESS IN THE COMMUNIST COUNTRIES
AND THE NATO COUNTRIES

Note by the Chairman

At the last meeting of the Sub-Committee(1) it was decided that the Economic Directorate would prepare a tentative outline of a study dealing with the relative economic progress in the Communist countries and in the NATO countries. The attached outline has been prepared in accordance with this decision and is submitted to the Sub-Committee for further consideration. The member countries are invited to present their comments and to submit any available information within the framework of this outline as their contribution to the elaboration of this note.

(Signed) A. VINCENT

OTAN/NATO,
Paris, XVIe.

(1) AC/89-R/53, Item II(3)

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RELATIVE ECONOMIC PROGRESS IN THE COMMUNIST COUNTRIES
AND THE NATO COUNTRIES

(Tentative outline)

PART I

GENERAL

- A. The economic field is the chosen battleground of Communism.
1. According to Marxist-Leninist doctrine:
 - capitalism, owing to its inner contradictions, is bound to self-destruction in crises and war;
 - Communism will engender an affluent society in which everybody will be provided for according to his needs.
 2. More recently, and although the Marxist doctrine is somewhat eroded:
 - Mr. Khrushchev claimed that the USSR would outdo the United States in economic terms;
 - Mr. Khrushchev showed himself so confident in the economic superiority of Communism that he could afford to repudiate the theory of the inevitability of war.
- B. The comparison undertaken does not cover two clear-cut and homogenous systems:
1. All Communist countries have some common doctrinal basis, apply a rigid state planning, depend on state enterprises and on a large amount of collectivisation, but they also show many differences:
 - even apart from the present doctrinal conflict between Communist China and the USSR, the Communist system, and in particular collectivisation, is applied to varying degrees in the Communist countries; for instance, in Poland, agriculture is left to private enterprise to a much larger extent than in most other Communist countries;
 - Communist countries are at varying stages of economic development: the USSR, the Soviet Zone of Germany, Czechoslovakia can be ranged with the industrialised countries, while China is still underdeveloped;
 - Communism has been introduced at different times in the various countries where it now rules: while in Russia it started in 1917, in all other countries it is a post-war phenomenon. Therefore Russia provides the best terms of comparison with the West.

2. The industrialised countries of the free world also show significant differences:

- they are at different stages of wealth and development: the United States has, broadly speaking, a standard of living two and a half times higher than that of Europe; within Europe, some countries (Greece, Turkey) are still in the development stage, while others are already industrialised;
- because of the freedom they enjoy and their dislike of any dogmatism, they provide a whole range of economic systems from liberalism to democratic socialism;
- however, they have common features:
 - (i) even when liberalism predominates, large, sensitive sectors of the economy, such as agriculture, are protected from the market forces when these forces might have disrupting social effects (control of sown areas, price fixing, state purchasing, quotas and so on);
 - (ii) even where some form of democratic socialism predominates (state enterprises, economic planning, co-operatives), the choice of the consumer is the main factor influencing the pattern of production, the decisions of the entrepreneurs remain a driving force and the market prices are still the main guide in these decisions.

C. The comparison implies a choice of criteria which, to some extent, are arbitrary.

1. Economic achievements will not be recognised by everybody as the best criterion to judge a political system; many people would rather sacrifice some economic efficiency to preserve individual freedom, if such was really the choice offered to them. On the other hand, it must be recognised that below a certain level of well-being, freedom may seem a theoretical concept (especially in less-developed countries).

2. Measuring economic achievements raises difficult problems:

- it means essentially comparing the use made of resources available, but these resources, (human and natural resources, equipment and so on) in the free world and in the Communist world are different;
- it involves a time element, as, in economic terms, a higher immediate return might be obtained through sacrificing future yields (soil exhaustion, or lack of amortisation of equipment in industry) and,

conversely, it is possible to get better future yields (e.g. through higher investment) by sacrificing the consumer in the short run or by exploiting the worker (e.g. a longer working week).

3. By want of better standards of comparison, in the present paper much use will be made of the rate of economic growth and progress in productivity.

D. Bearing in mind these general considerations, it has seemed convenient to divide the paper as follows:

- Basic data (Part II) on the respective positions of the various groups of countries in the world.
- Comparison of economic growth (Part III).
- Comparison of the use made of the economic resources available (Part IV).
- Comparison of the parts played by the industrialised countries of the free world and the Communist countries respectively towards the developing areas (Part V).
- Conclusion.

PART II

BASIC DATA

THE RESPECTIVE POSITION OF THE VARIOUS GROUPS OF COUNTRIES IN THE WORLD

A. THE COMMUNIST WORLD

1. The Soviet bloc (USSR and European Satellites).
2. Communist China and the Asian Satellites.
3. Special cases, Cuba and Yugoslavia.

B. THE NON-COMMUNIST WORLD

1. NATO countries
2. Other industrialised countries (European neutrals - Japan, Australia)
3. The developing countries.

Global comparisons: geographical situation, area, natural resources, population.

Relative share of each group in world totals: agricultural production, industrial production, foreign trade, world GNP.

PART III

THE COMPARISON OF ECONOMIC GROWTH

A. AGRICULTURE

1. Achievements of Communist agriculture.
USSR agricultural output as related to population: before 1917, in 1928, in 1953. The 1953 change in policy. The 1958 results and recent developments. The Communist Chinese experiments. Results in the European Satellite countries. Purchases of wheat from Western countries.
2. Achievements of the Industrialised Western countries: Canada, United States, Scandinavian countries, France. Agricultural problems in the West - the increase in productivity. The disposal of agricultural surpluses.
3. Importance of agriculture in the economies of both groups of countries.
 - Agriculture in the formation of GNP in the USSR, Communist China, the European satellites as compared to Western economies.
 - Share of manpower utilised in agriculture as related to total labour force in East and West.
 - Comparisons of yields per hectare of principal crops - results in livestock breeding.
4. The recurrent failures of the Communist system in agriculture have been recognised by the Communist leaders:
 - The NEP policy (1920-28) in the USSR;
 - The reforms introduced by Khrushchev (1954-6);
 - The abandonment of the "Great Leap Forward" in Communist China (1960);
 - The admission of the necessity of further reforms in Communist countries (recent statements by Khrushchev and other Communist leaders).
5. Official reasons for agricultural setbacks:
 - The climatic conditions;
 - Lack of fertilisers, tractors, mechanisation; administrative mis-management, lack of incentives for the peasants.

6. Fundamental reasons for agricultural failures:
- The Communist theory of unbalanced growth and neglect of agriculture;
 - The enforced collectivisation and the peasants' reactions; overcentralisation and lack of incentives. The difficulty of integrating agriculture in a rigid pattern of central planning (the fixing of reasonable targets - interference of weather conditions) (the control of implementation - size and dissimination of agricultural manpower).

7. Conclusion

Progress in agriculture in the West has proved far superior than in the Communist countries. The best results in the Communist world have been attained each time the most rigid dogmatic principles of Communism were abandoned.

B. INDUSTRY

1. Pattern of Soviet industrial development

- Priority on heavy industry - the machine-tool industry.
- The Consumer goods industry.
- The emphasis on quantity at the expense of quality (results: the piling up of stocks of unwanted products).

2. Comparison of industrial achievements in the Communist countries and in the West:

- Annual average growth of industrial production in the USSR 1950-1958 and 1959-1963. The results in the most advanced Communist countries: Soviet Zone of Germany and Czechoslovakia in recent years;
- Industrial production growth in the United States, Japan, the Federal Republic of Germany, France, since the last World War.

3. Reasons for the slackening rate of industrial growth in Communist countries in recent years:

- The problem of manpower, the reduction of the duration of the work week, labour productivity does not come up to expectations;

- The slackening rate of investments in industry (greater attention to agriculture, increased military expenditures);
- Growing difficulties for centralised planning in the face of diversification of industrial production, the unpredictability of scientific and technological breakthrough;
- Lack of progress of "Socialist division of labour" within COMECON.

4. Conclusion

In the early years of centralised planning in the USSR, the high rate of growth, disregarding the cost, correspond to undiversified needs. Given the present over-commitment of resources, the restoration of the old level of growth rates seems unlikely. In the free world, some countries have shown a more rapid industrial growth than the Communist countries (Japan).

C. SERVICES

Importance of the rôle of services in the formation of GNP in Western countries (United States, Canada, the Scandinavian countries).

Share of the labour force occupied in services.

The Communist concept of "productive services".

Services as a yardstick for development in advanced countries.

PART IV

THE ALLOCATION OF RESOURCES

A. INVESTMENT

1. The arbitrary fixing of the rate of investment in the Communist system.

- The share of GNP allocated to investment in Communist countries and in the West - the Japanese example;
- Concentration of investments in selected sectors.

2. Recent trends in resources allocation in the Communist countries.
- Evolution of the percentage of GNP devoted to investments in recent years in the USSR - most technically advanced sectors of industry (i.e. chemicals) are highly capital intensive;
 - The changing order of Communist priorities; the increasing importance of agriculture; the growing awareness of the demands of the domestic consumers;
 - The over-commitment of resources; the proliferation of economic claimants: in order to reach all the planned goals at the same time, attempts to overcome deficiencies in one sector lead to difficulties in others;
 - The problem of evaluation the relative economic efficiency of the distribution of investments in the absence of a reliable price system.

3. Conclusion

While the Communist system allows a high rate of investment at the expense of private consumption (also attained in the free world: see the Federal Republic of Germany and Japan) the economic efficiency of the utilisation of the resources remains questionable.

B. PUBLIC CONSUMPTION

1. Government consumption in Communist and NATO countries as part of Gross National Product.
- Comparison between the distribution of public consumption in East and West (research - education - health - social services - defence).
2. Military expenditures in the Soviet Union and in NATO countries.
- With a GNP equal to less than half that of the United States, the Soviet Union maintains a military strength comparable to that of the United States;
 - Overt and covert military expenditures in the USSR;
 - The price system applied on Soviet military goals;
 - Evolution of Soviet military expenditures since the last war;
 - Evolution of NATO military expenditures since the last war;
 - Military expenditures as a percentage of GNP in Communist and NATO countries.

3. Development assistance in developing countries.

Volume of economic aid provided by the Communist countries: (a) to less developed Communist countries; (b) to free world developing countries.

Share of economic aid as related to GNP (East and West) (see also PART V).

4. Conclusion

The fallacy of comparing the part of the national budgets devoted to defence. The Communist system concentrates its main attention on the building up of its national power.

C. PRIVATE CONSUMPTION AND STANDARD OF LIVING

1. Difficulties encountered by a rigid centralised planning system for forecasting consumer demand in the face of its growing diversification.

2. Consumption of durable consumer goods in Communist and NATO countries (number of automobiles, radios, television sets, refrigerators per inhabitant in the USSR, the Soviet Zone of Occupation of Germany, Czechoslovakia, Poland, Hungary as compared to the United States, the Federal Republic of Germany, France, the United Kingdom, Italy).

3. The building and housing programme in the USSR and its realisation. Residential construction in the West and in the East.

4. The diet of the Soviet citizen as compared to the diet of the American citizen.

5. The Communist distribution system and the catering to the consumers.

6. Conclusion

The USSR has devoted less of its resources to enhancing the welfare of the consumers than the Western countries.

PART V

COMPARISON OF THE PARTS PLAYED BY THE INDUSTRIALISED FREE WORLD COUNTRIES AND THE COMMUNIST COUNTRIES RESPECTIVELY TOWARDS THE DEVELOPING AREAS

A. The Soviet model is a short-cut to prosperity

1. The unique situation of the USSR at the end of the first World War:

- Level of development already reached (more advanced than the present stage of most developing countries);

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- The Russian experiment was based on a relative agricultural surplus not available in less-developed countries;
 - The size of the country and its endowment with natural resources allowed an autarchic development.
2. The Communist Chinese experiments show that even in a relatively similar type of country (size - natural resources - manpower) a repetition of the Soviet development pattern cannot be applied (abandonment of the Great Leap Forward) - results of the application of the Soviet system in the less-developed European satellites: Bulgaria, Rumania, Albania. The Yugoslavian way - the Cuban experiment.
 3. The rôle of agriculture as a basis for industrialisation in developing countries, (non-applicability of the Soviet model in agriculture) industrialisation through increased foreign trade and with technical assistance and foreign aid appears to be the shortest way towards economic development.
- B. Trade between the Industrialised Western countries and the developing areas and Communist Foreign Trade.
1. Foreign trade in the Soviet economy. The difficulties of planning foreign trade (the price problem - the demand of the foreign consumer). The inherent autarchic tendencies of the Soviet system. The fear of becoming dependent on foreign supplies hampers a rational world-wide division of labour. The accusation of "neo-colonialism" uttered by the Communists tries to hide their own deficiencies in the field of foreign trade.
 2. Share of foreign trade of the developing countries directed towards the industrialised West and towards the Communist countries. Advantages of free world trade (terms of trade with the West, with the East). The industrialised Western countries are economically more complementary to the developing areas than the Communist countries.
 3. Prospects for further development of trade between the developing countries on the one hand and the Communist countries and the industrialised free world countries on the other.

- C. Western economic and technical aid compared to Communist foreign aid.
 - 1. The Western resources are much larger and more diversified, permitting the allocation of a more adequate volume of aid and the providing of required technical assistance.
 - 2. Western aid is more "multilateral" than Communist aid (the problem of tied loans) and more liberal (Western grants and Communist long-term low interest loans).
- D. Conclusion

The Soviet model is not applicable to the less-developed countries. The economic development of the industrialised Western countries is of more direct importance to the developing countries than the advantages they might hope to derive from economic growth of the Communist countries.

CONCLUSION

- 1. Khrushchev's claims of overtaking the United States and Mao Tse-tung's claims of overtaking the United Kingdom in the near future have been shelved (quotations). The gap between the NATO countries and the Soviet bloc will continue to grow in absolute terms.
- 2. Most of the Communist countries are diversifying their economic experimenting and have rejected the universal validity of the Soviet model. In the USSR itself, a wide discussion as to how to improve the performance of the economic system (Lieberman proposals, the profit concept, planning methods, the price system, centralisation or decentralisation, administrative reforms, economic rôle of the Communist party, etc.,) is still in progress.
- 3. The flexibility of the Western economic systems in the face of rapidly changing conditions (decolonisation, defence effort, aid to developing countries) have allowed further economic growth directly reflected in the improving standard of living of their population.
- 4. Recent trends in economic development of Communist countries have dimmed the image of the Soviet model as a shortcut to prosperity and the internal rift between the USSR and Communist China must affect the theory of the historical inevitability of Communism as the path to be followed becomes more and more uncertain. Slow economic and social progress nevertheless continue to present Communism with opportunities in a number of developing areas as neither Khrushchev nor Mao Tse-tung have abandoned their final aim of world domination.