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COMPARISON OF ECONOMIC GROWTH IN THE SINO-SOVIET
BLOC AND IN NATO COUNTRIES

Note by the Chairman of the Committee
on Soviet Economic Policy

In December 1955 the Committee presented a preliminary report (1) to the Council on the comparative economic strength of the NATO countries and the Soviet bloc, which tried to present a picture of the likely course of developments over the next twenty years. The present paper is a brief summary of a more detailed study on the same subject. It has been prepared by the International Staff and reviewed in the Committee, which has agreed to forward it to the Council for their background information.

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1. The estimates presented in this paper are based on the following assumptions - that the present geographical boundaries of the Atlantic Alliance and the Soviet bloc (1) will remain unchanged, and that there will be no general war. For the NATO countries it is further assumed that there will be no deep and widespread economic depression and no disruption of raw material supplies; for the Soviet bloc the specific assumption is made that overtaking the West will remain a primary goal of economic policy.

2. Any attempt to crystal gaze into the future is, of course, hazardous, and this has been underlined by the events of the past few weeks. In future, demands for higher living standards may carry greater weight in determining Soviet economic policies than now seems likely, and this could reduce the rate of growth. In addition, there are many difficulties in making international economic comparisons, especially between countries whose economic structures and institutions differ widely, as do those of the NATO and Soviet countries. It is probable that the methods used to establish the comparisons tend to overestimate somewhat the relative economic strength of the Soviet bloc. However, the Committee feels that this does not affect the order of magnitude of the estimates presented.

3. Briefly, these estimates indicate that, even taking a reasonably optimistic view of future trends in the NATO countries, their overall rate of expansion is likely - as in the past - to be exceeded by the Soviet bloc, especially the USSR. The relative economic strength of the Soviet bloc would thus increase considerably, and at the same time Communist China would be emerging as a major industrial power. Though the aim declared at the XXth Party Congress - to overtake the per capita output in Western countries - would not be reached in the next twenty years, the Sino-Soviet bloc, and the USSR in particular, would become a greater potential threat to the free world. The table annexed to this paper summarises the national product projections of the countries concerned.

DIFFERENCES IN NATO AND SOVIET RATES OF EXPANSION

4. It may be asked why it is expected that the economy of the Soviets will grow much faster than that of the NATO countries. It is unquestionable that this has been happening in the past, but can the Soviets maintain their advantage for another twenty years?

5. The rapid expansion of the Russian economy in recent years has been possible because of the power of the government to force the population to sacrifice living standards, to maximise investment and, within the total level of investment, to concentrate on those sectors which contribute most to economic expansion. The Russians have pursued growth as a deliberate goal, made higher production the measure of success and arranged incentives accordingly. The USSR has had the advantage of domestic sources of raw materials exploitable at low cost. Again, she has benefited considerably from a rapid increase in manpower and from the ability to transfer surplus labour from agriculture to industry.

(1) The Soviet bloc should be understood to include Russia and the European satellites. References to China are made separately.

6. There are, it is true, reasons to expect some decline in the rate of expansion in future. This is foreseen in the current five-year plan, which provides for a rather slower rate of industrial growth than over the past few years. Now that the USSR has created a large industrial base, she may find it increasingly difficult to maintain the exceptional rates of growth of the past. As her most readily available natural resources are used up, further increases in production will become more costly. In addition, for the next few years the USSR will find it difficult to increase her labour force at the same rate as in the past; the low birth rate of the war years and the raising of the school leaving age will adversely affect the total supply of labour, while the efforts to improve farm output are stopping the flow of labour from villages to towns. However, by the end of the 'sixties, Russia's manpower situation should be much easier and she should benefit from a labour force growing rapidly in numbers and technical skill. This would help to counter the economic forces tending to slow down the rate of expansion.

7. It is less easy to predict how the government's domestic policies will develop over the next twenty years. New social forces are asserting themselves. The present leadership is trying to contain and direct these forces, but already it has been forced to pay some attention to the growing popular pressure for an improvement in living standards; there are promises of a reduction in working hours and some change in the direction of investment to meet needs for better housing and other amenities. This trend must adversely affect the rate of expansion of the economy, but how far it might go is impossible to say.

8. In the study, two alternative assumptions have been made. The first is that the policies stated at the XXth Congress of the Communist Party, with the accent on overtaking the West as quickly as possible, will be continued over the next twenty years. The second is that after completion of the current five-year plan in 1960, milder economic policies will be adopted. The first assumption seems more in keeping with the views of the Soviet leadership, but even under the second assumption the rate of expansion would be well above that of the NATO countries. Investment would be maintained at a formidable level compared with that possible over a long period in a free society. Anything which forced the Soviets to abandon this basic policy would be the result of social and political changes outside the scope of this paper.

9. In the satellites, it seems that popular pressures may continue to have far more effect than in the USSR; the future economic development of the satellites is therefore considerably more uncertain, and a comparatively conservative view of their likely rates of economic expansion has been taken in the study.

10. There are also great uncertainties regarding China's future economic expansion. Development of the economy will be largely determined by the achievements in agriculture, and prospects in this field are dependent on the willingness of the Chinese farmers to participate in the collective farm system. The first signs of a certain resistance have already become apparent. The long-range goals announced by the government for industry and agriculture are very optimistic, but, even allowing for considerable under-fulfilment of its plans, it is likely that in twenty years China will become an important industrial power.

11. In the NATO countries, future rates of growth are likely to decline somewhat as compared with the exceptional rates achieved in the recent past. In most NATO countries, resources are now fully used; the natural increase in the labour force in some of them will be rather small and there are also trends towards a reduction in working hours. Furthermore, in several NATO countries the rapid increase in investment which has contributed to recent economic expansion is being curbed in order to correct inflationary difficulties.

12. In the projections it has been assumed that governments will be able to overcome their problem of reconciling high levels of investment with the maintenance of financial stability, and that the share of investment in national income will rise over the next twenty years. This would partially offset the brake on expansion arising from the slow rate of increase of the labour force in most countries. Although the favourable influence which the proposed European common market scheme may have on the economies of NATO countries has not been taken into account, the projected rate of growth exceeds the past long-run trend and in this respect can be regarded as optimistic.

13. In brief, it appears likely that both the Soviet and the NATO countries will continue to develop rapidly, though at a slower rate than in the last few years; but the rate of growth projected for the Soviet bloc economy would be between 1.7 and 1.9 times that for the NATO countries combined.

CHANGES IN COMPARATIVE ECONOMIC STRENGTH

14. The consequence of such different rates of growth would be a rapid decline in the relative economic superiority of the NATO countries. In 1955, the national product of the Soviet bloc was only one-third of NATO's, whereas twenty years hence it would be at least half as large and might be significantly augmented by the output of Communist China. Moreover, the relative economic strengths of parts of the two blocs in 1975 would be radically changed - the total production of NATO Europe would be exceeded by that of the Soviet bloc and very likely by the USSR alone. US production would still exceed that of the USSR but the margin of superiority would be very much reduced; and the combined output of the USA and Canada might well be exceeded by the combined output of the whole Soviet bloc plus China.

15. The improvement in relative strength of the Communist countries would be most marked in industry. Industrial production in the Soviet bloc, which now appears to be less than a third of the NATO total, might increase to between one-half and two-thirds in 1975. Industrial output in the USSR alone would then be well above the present level in the USA and would consist of proportionately more capital goods. Agriculture and services are expected to develop less rapidly. This reflects not only the preferential treatment given to heavy industries but the difficulties of efficient development of agriculture and services which are inherent in the Communist society.

16. A comparison of the future use of resources in the Soviet bloc and NATO involves certain assumptions regarding military expenditures. For the USSR, it is assumed that these expenditures in constant prices will increase 5% per year on the average. An increase of this magnitude is suggested by the military programmes which the USSR is believed to be undertaking or is likely to undertake

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in the next few years; account is taken of the probable reduction in military personnel strength, but it is estimated that this factor would be more than offset by the increased costliness of new weapons. This percentage is less than the expected rate of increase of the Soviet national product, and, as a result, by 1975 the share of military expenditures would be somewhat less than it is now. For the NATO area as a whole, it is assumed purely as a working hypothesis that total defence expenditures will rise at about the same rate as total output, i.e. at an average rate of 3% per year.

17. Total consumption in the USSR would nearly double over the twenty-year period. A slightly smaller increase is projected for the European satellites. In 1975, consumption per head in the Soviet bloc would reach the present average level in NATO Europe, though it would be well below what NATO Europe might expect to achieve in twenty years' time.

18. Investment in the Soviet bloc would claim an increasing share of the national product if present Soviet economic policies were maintained for the next twenty years. Even allowing for the tendency to overestimate the Soviet figures, it is possible that by 1975 the total amount of investment in the USSR alone would be approximately equal to that projected for the NATO countries as a whole. The adoption of less strenuous domestic economic policies in the USSR would postpone the time when the Soviet bloc's investment equalled the West's; but it would not prevent the bloc from increasing its investment more rapidly than the West.

IMPLICATIONS FOR FOREIGN TRADE

19. The projected trends in economic growth have significant implications for the development of world trade over the next twenty years - especially the trade of underdeveloped countries. At present nearly all such trade is with NATO countries, whose imports from the underdeveloped areas in 1955 amounted to around \$20 billion, some twenty times those of the Soviet bloc.

20. On the basis of past trends, imports of the NATO countries from the underdeveloped areas might be expected to increase some two and a half times by 1975. This is a very rough calculation, but it underlines how important it is to NATO countries that future world development should be sufficient to provide for their growing needs for imports as well as export markets.

21. The NATO countries will not be the only areas competing for supplies and markets. The present economic difficulties of the satellites are partially the result of the disruption of their traditional trade relationships with the non-Communist world, and they are likely to increase their recent attempts to find outlets outside the Soviet bloc. At present they account for about nine-tenths of total imports of the Soviet bloc from underdeveloped countries.

22. Trade developments in the USSR are less predictable. The large increase in Soviet output of investment goods will give Soviet leaders more leeway in deciding how much to use for producing more investment goods and how much to export to the developing areas of the world. It is probable that the USSR will find it economically advantageous to increase her exports of capital goods, and she may find her aim of maximising economic growth best served

by an exchange of goods in the world market quite different from past patterns. This is, of course, speculative. What is difficult to dispute is that, over the next twenty years, the USSR is likely to attain the ability to intervene in world trade on a formidable scale.

CONCLUSIONS

23. However tentative the above discussion of possible developments by 1975 may be, the fact remains that so long as the Soviet bloc economies expand so much faster than those of the NATO countries, the improved relative economic strength of the Soviet bloc and of the USSR in particular will alter substantially the military capabilities of East and West over the next twenty years. It will also increase the ability of the USSR to employ economic measures for extending its influence in underdeveloped areas and, more generally, intervening in world trade.

24. The success of the Soviet bloc in maintaining high rates of growth might have an important psychological effect on the underdeveloped countries by presenting an example of rapid economic development achieved under Communism. Recent events in Poland and Hungary should serve as a warning to underdeveloped countries of the heavy price which has to be paid for the Communist way of development; but memories are short. In the long run, the attraction exerted by China on the underdeveloped countries will become greater as she grows into a major industrial power. Indeed, the possibility cannot be excluded that in the years to come China will compete to an increasing extent with the USSR to win the allegiance of the underdeveloped countries.

25. Accordingly, the NATO countries cannot afford to neglect any measures, compatible with the maintenance of their free institutions, to foster their economic development. The free countries cannot expect to devote the same proportion of their resources to investment as do the Communists, but the experience of the last few years shows that it is possible to achieve faster rates of growth if this is a conscious aim of policy. The strengthening of economic co-operation can play an important part in assisting countries to make the best use of their resources and to maintain high rates of expansion without constantly running into balance of payments difficulties. In addition, the strengthening of economic ties with the underdeveloped countries is vital to the economic progress of the NATO Community.

PROJECTED GROWTH OF GROSS NATIONAL PRODUCT
1955 - 1975

Areas	Indices 1955 = 100	
	1955	1975
(1)	(2)	(3)
1. Total NATO	100	187
USA and Canada	100	193
Other NATO countries	100	179
2. Soviet bloc	100	282 - 310
USSR	100	295 - 345
Eastern European satellites	100	240
3. Communist China	100	350

RELATIVE ECONOMIC STRENGTH OF THE NATO AND SOVIET COUNTRIES
IN 1955 AND 1975

Areas	Indices NATO GNP = 100	
	1955	1975
(1)	(2)	(3)
1. Total NATO	100	100
USA and Canada	58	60
Other NATO countries	42	40
2. Soviet bloc	33	50 - 56
USSR	25	40 - 46
Eastern European satellites	9	10
3. Communist China	5	10