2 Foundations of Power: Resources

The results of production should increase more quickly than expenditure upon it.

D. F. Ustinov, July 1984

The economy must become economic.

L. I. Brezhnev, March 1981

The Soviet Union will survive its economic difficulties, but it is unlikely to surmount them. Twenty-five years ago, such a prognosis would have astounded many. In the wake of Sputnik a large number of observers, sympathetic and hostile, were convinced that the USSR’s technical and scientific prowess, and the planning system which underpinned it, posed a profound challenge to the West’s values, institutions and international standing. A fresh listening to the 1960 Kennedy–Nixon debates is enough to rekindle the exaggerated sense of urgency then felt that Communism represented the wave of the future, as its adherents had prophesied. Today it is commonly held that the Soviet economy is an albatross – an albatross in the form of heavy military outlays, hard currency imports, and a lengthening backlog of consumer demands. It is widely accepted that this system ‘has nothing to teach us’. Indeed, the fashion in many quarters is to ponder whether the West possesses the discipline and finesse to ‘manage’ the USSR’s decline – or perhaps accelerate it. Several questions motivate this discussion. Is Western conventional wisdom a better guide to reality today than it was twenty-five years ago? What precisely is at fault with the Soviet economy, and to what extent is improvement possible? What are the implications of economic strain for Soviet power, internally and externally? Can outside pressure play a role in influencing the course of events?

The backdrop to any assessment is, inescapably, the formidable size and productive capacity of the Soviet economy (by CIA estimates 60 per cent larger in GNP than Japan’s). Over the fullness of time, in spite of revolution, civil war and world war, performance relative to
competitors has not been lacklustre: compared with 1913, when per capita GNP stood at 24.6 per cent of the US level, the 1984 ratio was 46 per cent. On the other hand, the mere fact that in that time she has overtaken at most one of some 20 countries that outranked her in per capita terms is enough to establish that her record is less than spectacular. Whatever the verdict on her previous achievements, the decline in her performance over the past 15 years has been marked and far-reaching.

THE AGENDA OF DIFFICULTY

The well-known part of the story is the secular decline of growth rates from the heady levels of the 1950s (some 6 per cent per annum), as factor inputs (land, labour, raw materials) have levelled off. Calls for innovation and for productivity related ‘intensive’ growth have been to little avail. Production targets have been consistently underfulfilled from the Ninth Five-Year Plan (1971–75) onwards. Estimated GNP growth declined from 3.7 per cent per annum in 1971–75 to 2.6 per cent in 1976–80, and again to 1.9 per cent in 1981 (although it must be said that 1982 and 1983 have shown some improvement – up to 2.6 per cent and 3.7 per cent respectively – the CIA’s estimate for 1984 is a lacklustre 2.5 per cent). Investment growth rates, whilst also declining, continue to exceed the rate of overall economic growth: whereas fixed investment amounted to 25 per cent of GNP in 1970, it absorbed 34 per cent of GNP in 1983. The task of maintaining existing production levels has therefore come to consume a higher and higher share of national output. Tradeoffs between different sectors of the economy have also become more expensive and more painful in their consequences.

For one thing, the shape of the economy is becoming more primitive. Primary and extractive industries (now accounting for over 50 per cent of gross social product) are displacing manufacturing industries in relative importance, as investment is harnessed to the tasks of developing energy resources, ore and mineral deposits. This trend is costly. In the Soviet manufacturing sector it costs 0.7 million roubles in capital investment to increase production capacity by one million roubles, but it costs four million roubles to achieve the same result in the extractive sector. One result of this diversion of investment is under-mechanisation and a shortage of labour: almost one half of workers in industry are consigned to unmechanised tasks.