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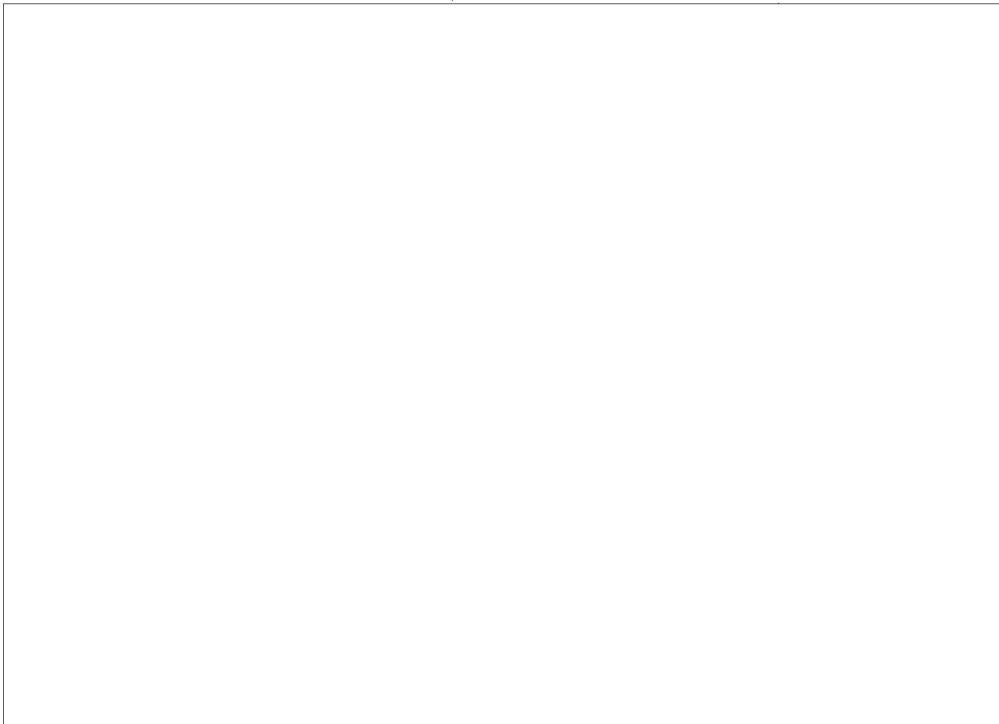
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1. THE 1956 SOVIET BUDGET

Comment on:

[Redacted]

Initial examination of the 1956 Soviet budget indicates no substantial policy changes. In spite of the announced reduction in defense expenditures, it cannot be said that a major change has been made in the level of military end-item procurement. The varying reductions in wholesale prices during 1955, however, make exceptionally complex an accurate comparison of 1955 and 1956 figures.

Stated defense expenditures are to decline from 112.1 billion rubles planned for 1955 to 102.5 billion for 1956. As much as half of this cut may be accounted for by the demobilization of 640,000 men announced earlier this year and the savings expected from the retail price cut announced for 1956. Lower procurement costs resulting from wholesale price cuts in industry and reductions in unit costs of some military items indicate that end-item procurement will not be reduced in proportion to the announced reduction in defense expenditures and suggest that procurement may even increase in real terms.

The relative predominance of heavy over light industry remains unchanged. Capital investment will increase 15 percent over 1955: the share for heavy industry will rise from 56 percent last year to 60 percent, while the share for the consumer goods industries will fall to below 5 percent, approximately the percentage allocated in the 1952 budget. The total allocation to agriculture will fall from 65.1 to 55.6 billion rubles, again partly because of lower wholesale prices, although investment in agriculture will remain at a high level.

[Redacted] (Prepared by ORR)

2. NO POWER CRISIS SEEN IN SOVIET LEADERSHIP

Ambassador Bohlen in Moscow has seen no evidence to justify speculation that a "new crisis of power" exists in the Soviet leadership. He considers it unlikely that Khrushchev and Bulganin would have absented themselves for a month, leaving Malenkov and Molotov behind, if serious internal differences were developing.

No clear pattern is discernible in the recent changes in provincial party secretaries. The ambassador assumes, however, that there are differences within the leadership and accepts the possibility that during the party congress in February or even during the current Supreme Soviet session there may be changes in the status of key individuals.

Comment

While a power crisis does not appear to be imminent, several officials who in the past have been associated with Khrushchev have been appointed to party and government posts, suggesting he has been gaining control of key positions throughout the country.

Khrushchev has accomplished a restaffing of the central committee "apparatus" during the past year. Consolidation of his control of this vital headquarters staff suggests that he has been eliminating the basis for any opposition to his dominant position within the framework of "collective leadership."

3. RHEE ATTEMPTING TO INVOLVE UNITED STATES OVER FISHING INCIDENT WITH PEIPING

President Rhee is attempting to exploit the clash between a South Korean coast guard vessel and Chinese Communist fishing boats in the Yellow Sea on 25 December to secure American intervention against the Chinese Communists. He is [redacted]

[redacted] to request General Lemnitzer, as UN commander, to make a formal protest to the Chinese and obtain the release of four seized Korean coastguardmen.

Rhee has also ordered his propaganda directorate to describe the encounter as the first of a series of such incidents in a "Tokyo-Peiping-Pyongyang campaign of provocation and aggression against South Korea." [redacted]

Comment

The clash took place on the high seas approximately 115 miles southwest of Korea, but within Rhee's unilaterally proclaimed "fisheries line."

Communist China's determination to protect seasonal fishing operations in the Yellow Sea makes probable further incidents with Rhee's coast guard. With the exception of the coast guard, regular South Korean forces are under control of the UN commander.

Rhee may hope to involve the United States in this incident with Peiping as a new step in his effort to gain Washington's support in his long-standing fisheries dispute with Tokyo.



THE ARAB-ISRAELI SITUATION
(Information as of 1700, 27 December)

No significant military action has been reported, but sporadic firing across the Egyptian-Israeli and Syrian-Israeli frontiers has been resumed after a brief respite. An Israeli military spokesman has alleged that Egyptian troops in the Gaza area are being reinforced.

The announcement that Egypt and Saudi Arabia have established a joint military command under Egyptian general Amir is not likely to make Saudi-Egyptian co-operation significantly closer. The move provides a paper organization for the defense pact between the two countries signed last October, but the Saudis will presumably limit their contribution to money and some men for training in Egypt. Amir's authority over Saudi forces probably is much more restricted than his control over Syrian forces under the joint Egyptian-Syrian command.