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ECONOMIC INTELLIGENCE REPORT

THE 1955 SOVIET BUDGET



CIA/RR 64

4 November 1955

CENTRAL INTELLIGENCE AGENCY

OFFICE OF RESEARCH AND REPORTS

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(ORR Project 14.437)

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FOREWORD

The annual statement of the state budget of the USSR serves two purposes. First, and foremost, the basic financial plan for the operation of the Soviet economy is presented for the guidance of the governmental administrative apparatus and for the implementation of the physical production plan which has been circulated. Second, and from the Soviet point of view equally significant, the presentation of the budget provides an occasion for the elaboration of the principal themes of current Soviet propaganda.

There is nothing new about the use of the Soviet state budget for propaganda purposes, but there has been increasing use of it for these purposes since 1953. Traditional account entries have been subject to more rapid change in content than heretofore, and items have been included in the budget which formerly were not included in the budget plan.

A detailed analysis of the budget statements and the account entries thus has become doubly necessary if there is to be any firm basis for comparing the year-to-year changes in the complexion of the Soviet economy indicated by the presentation of the state budget. Here, as elsewhere in Soviet statistical presentations, the data almost certainly are not falsified, but they are subject to manipulation that may (if not subject to careful scrutiny) mislead the reader who assumes a continuity and identity of the budget categories. To illustrate this point: despite a display of increased emphasis on the Soviet agricultural program in the Khrushchev and Zverev speeches, it appeared from a cursory examination of the 1955 budget that there had been a cut of more than 10 percent in the agricultural allocation. There was, however, a redefinition of the appropriation from "agriculture and procurement" to "agriculture," and the net effect of this redefinition of the appropriation was to increase the appropriation for "agriculture." The existence of not one, but several, transfers of this sort creates a need for the methodical and detailed analysis of the budget structure which has been undertaken in this report.

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THE 1955 SOVIET BUDGET*

Summary and Conclusions

The Soviet state budget for 1955 is designed primarily to improve financial control over the economy, to reduce excessive purchasing power in the hands of the population, and generally to increase the efficiency of the operation of the state. Except for a 12-percent increase in explicit defense appropriations, the budget for 1955 shows no significant shift in resource allocation compared with 1954. Traditional priorities are being maintained, with a continued emphasis on agricultural development. Total budget spending is being curtailed. Revenues will increase about as much as planned for 1954, the bulk of the increase going to budget surplus.

Increased profits taxes and a doubling of the state loan are the two principal sources of increase in revenues. The turnover tax continues to decline in importance, as a result of increases in state procurement prices for agricultural products.

The doubling of the state loan, which reverts to the pre-1953 rate, and the failure -- for the first time in 7 years -- to announce a retail price reduction both indicate concern over the inflationary effects of the continued overexpenditure of the wage bill, which has not been accompanied by a corresponding increase in the availability of the basic consumer goods.

On the expenditures side there is no apparent increase in capital investment over what was planned in 1954. Defense spending is estimated to have increased primarily on the basis of an increase in the procurement bill. There is no evidence of any increase in "hidden" defense expenditures. The budget residual (adjusted to allow for comparability) is the same as in 1954 and can be accounted for according to traditional accounting categories. The residual within the expenditure category Financing the National Economy has decreased,

* The estimates and conclusions contained in this report represent the best judgment of ORR as of 1 June 1955.

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but there has been a corresponding increase in the allocation to heavy industry, which implies a transfer of funds and not a net increase. Both these categories have been associated in the past with "hidden" defense expenditures. It is speculated that this transfer may represent a shift in atomic energy appropriations.

The above comparisons take into account the "fictitious" entries made, on both sides of the Soviet state budget, since the death of Stalin. They are smaller in 1955 in that this year there is no retail price reduction. This year, the only fictitious entry is one representing the "revenues" and "expenditures" resulting from maintenance of the increases in agricultural procurement prices inaugurated in 1953. It is possible that, in future budgets, these fictitious entries will be discontinued.

I. Budget Revenues.

Total revenues in the Soviet state budget for 1955 are planned at 590.2 billion rubles. There is an apparent increase of 3 percent over 1954 planned revenues and 6 percent over 1954 actual revenues, but the actual increase over the 1954 plan is 7 percent, since the value of fictitious entries in the 1955 budget is only about one-half what it was in 1954. Planned budget revenues in 1955 are shown in Table 1,* together with planned and actual revenues for 1951-54. Most of the increase in revenues in 1955 will come from increased profits taxes and an increased state loan from the population. These items account for about 20 and 5 percent of budget revenues, respectively. The turnover tax, which accounts for about 40 percent of budget revenues, continues to decline as a result of measures taken in 1954 to raise the state procurement price for grain, but the decline is less than in 1954, when retail price reductions also contributed to it. Secondary** and undisclosed sources of revenues have been reduced by about 5 percent compared with 1954 but are still high relative to earlier years.

* Table 1 follows on p. 3.

** Secondary revenues are those not usually defined by the Finance Minister in his budget speech.

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Table 1

Soviet Budget Revenues a/*
1951-55

	Billion Rubles								
	1951 b/		1952 e/		1953 d/		1954 e/		1955 f/
	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual	Plan
Turnover tax	244.7	247.8	260.7	246.9	240.4	243.6	234.4	224.4	233.7
Deductions from profits	47.2	48.0	62.0	58.5	80.7	70.3	92.8	83.5	117.5
Taxation on population	43.4	44.3	47.4	47.4	46.1	46.1	45.7	N.A.	48.4
State loans	33.4	37.0	42.6	N.A.	(28.4) g/	N.A.	(27.4) g/	N.A.	(42.5) g/
Social insurance funds	21.1	21.4	21.4	21.9	(23.0)	23.2	24.7	N.A.	(26.2)
Machine Tractor Station (MTS) revenue	5.2	N.A.	6.0	N.A.	(9.6) h/	N.A.	(13.5) h/	N.A.	(15.0) h/
Taxes on enterprises and organizations	7.6	N.A.	10.2	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Collections and miscellaneous nontax income	N.A.	N.A.	14.0	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Customs and reparations	N.A.	N.A.	26.2	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Economies in administration	0	0	0	0	6.5	N.A.	3.9	N.A.	6.1
Other revenues	56.1	N.A.	19.4	N.A.	66.4	N.A.	84.6	N.A.	78.3
Total real revenues	458.7	470.3	509.9	497.7	501.1	N.A.	527.0	N.A.	567.7
Retail price reductions	0	0	0		43.2	N.A.	15.7	N.A.	(0)
Raising agricultural procurement prices	0	0	0		0	0	23.3	N.A.	22.5
Revaluation of inventories	0	0	0		0	0	6.5	N.A.	(0)
Total stated revenues	458.7	470.3	509.9	497.7	544.3	539.7	572.5 i/	557.5 i/	590.2
Budget surplus	7.2	27.3	33.0	37.5	13.8	24.9	9.7	4.7	26.7

* Footnotes for Table 1 follow on p. 4.

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Table 1

Soviet Budget Revenues ^{a/}
1951-55
(Continued)

- a. All figures in parentheses are estimates based on previous years except where noted.
- b.
- c. ^{2/}
- d. ^{3/}
- e. ^{4/}
- f. ^{5/}
- g. State borrowing includes loan subscription (1) by the population, (2) by the savings banks, and (3) by the state insurance organizations. Items (1) and (2) are given; item (3) must never be more than 3.0 billion rubles ^{6/} and is estimated at less, on the basis of previous years.
- h. Estimates of MTS revenue take into consideration increased activity and increased value of income in kind, which is valued at State Procurement prices.
- i. The sum of the underfulfillment of receipts from turnover and profit taxes (19.3 billion rubles) exceeds the underfulfillment of gross income (15 billion rubles) by approximately the same amount as the underfulfillment of the budget surplus (5 billion rubles), which would tend to indicate that the plan data for the remaining income categories are virtually identical with actual results. ^{7/}

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A. Turnover Tax.

The turnover tax is an excise tax levied on consumer goods and petroleum products. It has been steadily declining as a percentage of budget revenues, falling from 55 percent in 1950 to 40 percent in 1955. This decline reflected retail price reductions and the raising of state agricultural procurement prices, measures which tend to bring prices of consumer goods closer to costs. Retail price reductions have been made primarily at the expense of the turnover tax on consumer goods, and the raising of state procurement prices in agriculture has been made at the expense of the turnover tax on agricultural produce. This is evident from a comparison of rates of increase in state trade turnover and the turnover tax, presented in Table 2.* Assuming in 1955 a growth of state retail trade turnover of 12 percent, expected turnover tax receipts would be much higher than the amount planned for in the budget. The gap can be explained by the rise in agricultural procurement prices in both 1953 and 1954. If, for instance, the state procures an article at 10 rubles and retails it at 25 rubles, making 15 rubles in the turnover tax, when the state procurement price is raised to 15 rubles, the turnover tax falls to 10 rubles. Such an operation may be performed without any announced change in tax rates, since turnover tax is expressed as the difference between the retail and the wholesale price of an article. It is possible that the plan for the turnover tax in 1954 was changed as a result of measures taken in June 1954 which raised purchase prices and lowered delivery quotas on grain. Revisions in the tax plan may have led to under-fulfillment.

B. Profits Tax.

The profits tax continues to increase at a rapid rate, as do total profits. In recent years, however, the profits tax has been increasing at a more rapid rate than total profits. Planned profits and deductions to the budget in recent years are shown in Table 3.** Thus, in 1955, profits taxes are to amount to 80 percent of total profits; in 1954 they were planned to amount to 75 percent; and in 1953, 72 percent. This development is accompanied

* Table 2 follows on p. 6.

** Table 3 follows on p. 7.

Table 2

Soviet Turnover Tax Receipts as a Function of Trade Turnover in Current Prices
1951-54

	Announced Turnover Tax a/ (Billion Rubles)	Percentage Increase b/	Expected Tax Receipts c/ (Billion Rubles)	Loss in Tax Revenues from Price Changes d/ (Billion Rubles)	Expected Tax Receipts Less Loss in Revenues (= Announced Turnover Tax) (Billion Rubles)
1951 (actual)	247.8	115			
1952 (actual)	246.9	110	272.6	(25.5)	247.1
1953 (actual)	243.6	121	298.7	(55.5)	243.2
1954 (planned)	234.4	115.5	281.4	45.5 e/	235.8
1954 (actual)		118	287.4	N.A. f/	(230) g/

- a. []
- b. Data in this column are from plan and plan fulfillment announcements. 9/
- c. Obtained by multiplying yearly increases in trade turnover by turnover tax receipts of previous year.
- d. These figures represent losses to the budget of taxes rebated for the purpose of inventory revaluations at the time of a price reduction and of taxes that would have been collected had not the price reduction taken place, from the time of the price reduction to the end of the year. Except where noted otherwise, these data were obtained by taking 111 percent of announced savings to the population from retail price cuts. This ratio obtained in 1954 and has been assumed constant. Revaluation of inventories plus loss to the budget in sales gave 22.2 billion rubles. Announced savings to the population over a year were 20 billion rubles. []
- e. Revaluation of inventories (6.5) plus loss to the budget from price cuts (15.7) plus loss to the budget from raising procurement prices (23.3), 11/
- f. Inasmuch as losses due to unplanned grain measures in 1954 are not known, total actual losses are unavailable.
- g. Estimated on basis of total revenue underfulfillment. If this is approximately right, it would make total losses about 57 billion rubles with about 12 billion rubles lost from grain measures in 1954.

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by less dependence, in the financing of industry, on nonbudgetary sources and may reflect a growth of direct control by the state over the disposition of industry profits. It could reflect to some degree an increase in surplus working capital to be paid into the budget in this category. The category Deductions from Profits besides including profits taxes also includes an item "surplus working capital." 12/ There has been increasing stress on cutting down above-norm supplies of raw materials in recent months. At the end of 1954 there was a move to get rid of some of these surpluses. Above-norm production supplies (zapasy) were directed into the trade network for sale to the population or used for additional production of consumer goods. 13/ Indications of an increasing availability of credits to light industry also imply that the amount of working capital covered by short-term credit is to be increased. 14/ All these measures would free surplus working capital for deposit into the budget.

Planned profits and deductions to the budget in recent years are shown in Table 3.

Table 3

Distribution of Profits in the Soviet Budget 15/
1951-55

	Billion Rubles				
	1951	1952	1953	1954	1955
	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Plan</u>	<u>Plan</u>
Total profits	74.7	83.5	89.8	123.2	143.3
Paid to budget	48.0	58.5	70.3	92.8	117.5
Retained	26.7	25.0	19.5	30.4	25.8

Profits are a function of unit cost and volume of production. An underfulfillment of the profits plan usually reflects an underfulfillment of the cost and/or the production plan. Since the cost plan was underfulfilled in 1954, even though the production plan was fulfilled,

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it is likely that profits and profits taxes were slightly underfulfilled.

In 1954 the plan for industrial profits was 59 percent of total profits, 16/ which is a return to the 1948-49 levels, when wholesale prices were raised in order to increase profits in industry. 17/ In 1954 there evidently were no planned price cuts in industry. Thus to the extent that firms met their plan for lowering of costs of production, this action would have the effect of producing more profits than in years when both costs and prices are lowered.

The 1955 budget law stated that wholesale prices and freight rates were to be lowered 1 April 1955 and implied that the announced budget did not take this into account. 18/ It charged the Council of Ministers, in carrying out the budget for 1955, to make changes in revenues and expenditures accordingly. The item most likely to be affected here would be the profits tax. Price reductions would have the effect of reducing profits and over-all revenues as well as expenditures.

C. Population Taxes and the State Loan.

Taxation of the population is composed primarily of income tax on the agricultural and nonagricultural population. In 1955 this category shows a normal rise expected from an increased labor force. In 1953 and 1954, personal taxes fell as a result of reductions in agricultural income tax and other tax benefits to the agricultural population.

The state loan from the population is to be 30.5 billion rubles, double the loans of 1953 and 1954. It will elicit an average subscription of 4 weeks' wages per worker. 19/ Additional loans will be made to the state by savings banks, amounting to the sum of increments to personal savings deposits, this year to be 10 billion rubles. 20/ Additional loans also will be made by social insurance organizations, amounting to a sum of not over 3 billion rubles. 21/ Total estimated borrowing, therefore, is 42.5 billion rubles, the same amount as planned in 1952. Oversubscription of the loan bond drive will raise this figure.

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The increase in the state loan seems to be mainly a result of pressures caused by overfulfillment of the wage fund and underfulfillment of the consumer goods production plan. It also provides a needed source of revenue in 1955 to compensate for the continued decline in the turnover tax. Other revenues, excepting profits taxes, in general are at the same level as planned for 1954.

It should be pointed out that expenditures on retirement of the state loan are increasing steadily and in 1955 will amount to over 12 billion rubles, or about one-fourth of total state borrowing. In 1954, when the loan was much lower, retirement amounted to about one-third, thus lessening the net amount of revenue from this source. In the face of the decline in the turnover tax, it would appear that Soviet leaders may be faced with some rather considerable overhaul of the revenue structure in the near future.

D. Secondary Sources.

Secondary sources of revenue include social insurance funds, Machine Tractor Station (MTS) revenue (which is on a gross basis in the budget), income taxes on enterprises and organizations (such as profits taxes on cooperatives), collections and miscellaneous nontax income, and customs and reparations.

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In general, revenues from secondary sources in 1955 are slightly below those planned for 1954. They are much above the 1953 level, however, since there was an unexpected rise in 1954, which is difficult to explain. It is suggested that increasing amounts of capital repair may be channelled through the budget. A possible source of an increase in revenues could be the dissolution of a number of Soviet joint stock companies in 1954 in China, Rumania, and Bulgaria. The terms of sale dictate payment over a number of years in goods. 22/ It might be that the value of these goods is entered as budget revenue. At the same time, however, the ending of reparations from Germany in 1953 should have effected some decrease in the reparations item. The large import of consumer goods items which existed in 1954 23/ and the consequent profit from internal sale may also have served to raise revenues.

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1. Social Insurance Funds.

These funds represent compulsory social insurance payments deducted from workers' wages and budgeted by trade unions for pensions and welfare expenses. Insurance of property is handled outside the budget by the state insurance organization of the Ministry of Finance. Social insurance expenditures are included under Social-Cultural Measures.

2. Machine Tractor Station (MTS) Revenue.

Inasmuch as the Machine Tractor Stations are on a gross basis in the budget, all their income is paid into the budget. MTS income consists of payments in kind from the kolkhoz for MTS services; this income is valued at compulsory procurement prices. MTS income has been estimated to rise in the same proportion as total state procurement prices. In 1955 it is estimated to amount to less than half of MTS expenditures. Under such a program it will be some time before the Machine Tractor Stations will be able to cover their expenditures with their own income. If, however, MTS income in kind were valued at market prices, the Machine Tractor Stations would probably be much closer to being self-sustaining, if not completely so. .

3. Collections and Miscellaneous Nontax Income.

The category Collections and Miscellaneous Nontax Income is made up of a variety of items such as receipts from fines, sale of state property, "special funds," payments for passports, and fines collected for nonfulfillment of obligatory deliveries to the state.

4. Customs and Reparations.

Data on Customs and Reparations are available in Soviet announcements only until 1952, and it is impossible to estimate this account for more recent years. It may be suggested that the reparations item in this category should decline in 1953 and 1954, in view of the ending of reparations in 1952 from Rumania, Hungary, and Finland and in 1953 from Germany. On the other hand, increases in foreign trade, particularly in consumer goods, may have increased considerably the income from customs levies.

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E. Summary of Revenues.

Total real revenues increased 7 percent in 1955. Their disposition is indicative of anti-inflationary objectives. The absolute increase in revenues is to be 33 billion rubles, of which 22 billion will go to budget surplus. The state loan from the population in 1955 is to be double that of 1953-54. There will be no retail price reduction in 1955, as there has been annually since 1948. At the same time, increments to personal savings deposits, planned at 10 billion rubles, are to continue at the high rate begun in 1953. These measures are to combat pressures which flow from underfulfillment of the consumer goods production plan. In addition, they will bring increased revenues to the budget, much needed in 1955, in view of the fact that the turnover tax, the principal source of revenue, continues to decline as a result of increased agricultural procurement prices.

The profits tax, the other principal source of increased revenue, has risen considerably. Out of a total planned increase in real revenue of 41 billion rubles, 25 billion will come from the profits tax and 15 billion from the state loan. In future years, as long as there are no retail price reductions or increased procurement prices, the turnover tax will continue to grow along with trade turnover. If, however, turnover tax rates continue to decline, the structure of revenue, reflected in the budget, will have to be revised in order to maintain previous growth rates.

II. Unorthodox Accounting Entries in the 1953, 1954, and 1955 Budgets.

In all the budgets published since Stalin's death, there have been certain new items entered in both sides of the budget which appear to be fictitious entries and should be segregated in any analysis directed at discovery of the real growth in budget revenues and expenditures. These entries represent losses to the state budget resulting from reductions in taxes on consumer goods -- reductions in turnover taxes reflecting retail price reductions and the increase in state agricultural procurement prices. The losses to the budget occur under revenues, and the specific revenue item where the loss occurs shows the loss, but there is also an additional (fictitious) revenue item of the value of the loss and a corresponding (fictitious) expenditure item of the same value. The additional revenue item is described as

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"revenues, allocated for ... compensation of differences in connection with ... the raising of procurement and purchase prices on agricultural products, and also funds issued for ... lowering state retail prices" The additional expenditure item is described as "expenditures for the compensation of the differences in prices on procurement of agricultural products and ... for lowering ... state retail prices" 24/ In 1953 these fictitious entries involved only an item representing budget losses resulting from retail price reductions and amounting to 43.2 billion rubles.* In 1954, apparently because retail price reductions were not so great as in 1953 (losses being valued at only 15.7 billion rubles), two additional fictitious items were entered in order to show some growth in the total budget. One item of 23.3 billion rubles represented budget losses resulting from state measures taken in 1953 to raise state agricultural procurement and purchase prices. The other item of 6.5 billion rubles represented the amount of the turnover tax collected and rebated for inventory revaluation at the time of the retail price cut.** The total amount of fictitious entries in the 1954 budget was 45.5 billion rubles.

Only one questionable entry was made in 1955, that entry indicating a 22.5-billion-ruble loss for 1955 from measures taken in 1953 to raise procurement and purchase prices in agriculture. The inclusion of fictitious entries has been partly discontinued this year and may be discontinued altogether in 1956. All the fictitious entries showing losses to the budget incurred by the state in reducing retail prices and raising agricultural procurement prices essentially reflect losses in turnover tax, as is indicated in the notes to Table 2.*** Table 4**** indicates the levels of total revenues and expenditures for recent years less the fictitious entries outlined above. Budget growth lagged in 1953, the first year

* In last year's analysis of the 1954 budget an additional item amounting to 3.8 billion rubles was erroneously introduced as a fictitious item. 25/

** 1954 was the first year in which such a figure has been announced. In 1952, when savings from the price cut were 23 billion rubles, undisclosed expenditures amounted to only 4.2 billion rubles, leaving no room for inventory revaluations. It is suggested that such revaluations are covered from turnover tax receipts and that the plan for turnover tax takes this expense into account. Thus the entry of this item in 1954 in the budget represents double counting, since the tax plan already takes care of its losses. Last year's analysis of the 1954 budget does not take cognizance of this entry as a fictitious item. 26/

*** P. 6, above.

**** Table 4 follows on p. 13.

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that a fictitious entry was made in order to show growth. Revenues for 1953 declined in previously conventional terms, and expenditures increased 2 percent at the expense of the surplus.

Table 4

Total Soviet Budget Planned Revenues and Expenditures a/
1951-55

	Billion Rubles				
	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>
Revenues	458.7	509.9	501.1	527.0	567.7
Expenditures	451.5	476.9	487.3	517.3	541.0
Surplus	7.2	33.0	13.8	9.7	26.7

a. Derived from Table 1, p. 3, above.

III. Budget Expenditures.

Total expenditures for 1955 are planned at 563.5 billion rubles. Expenditures apparently are leveling off at the 1954 planned level, 2 percent above 1954 actual expenditures. In reality, however, the growth over 1954 plan is 4.6 percent, since value of fictitious entries in the budget in 1955 is only about one-half what it was in 1954. Planned budget expenditures in 1955 are shown in Table 5,* together with planned and actual expenditures in 1951-54. All of the rise in expenditures has occurred in traditional primary expenditures: Defense, Financing the National Economy, and Social-Cultural Measures. The largest rise, one of 12 percent, has occurred in Defense expenditures, which in 1955 amounts to 21 percent of real expenditures. Financing the National Economy has risen 3 percent over 1954 plan and amounts in 1955 to 41 percent of total expenditures. Social-Cultural Measures have increased 4 percent and amount to 27 percent of total**

* Table 5 follows on p. 14.

** Continued on p. 16.

Table 5
Soviet State Budget Expenditures a/*
1951-55

	Billion Rubles									
	1951 <u>27/</u>		1952 <u>28/</u>		1953 <u>29/</u>		1954 <u>30/</u>		1955 <u>31/</u>	
	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual	Plan	
Financing the National Economy <u>b/</u>	<u>178.5</u>	<u>179.6</u>	<u>180.4</u>	<u>178.8</u>	<u>192.5</u>	<u>180.4</u>	<u>216.4</u>	<u>213.4</u>	<u>222.4</u>	
Industry	79.9	N.A.	80.6	N.A.	82.6	N.A.	92.3	N.A.	111.8	
Heavy industry	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	79.7	N.A.	101.2	
Light industry	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	12.6	N.A.	10.6	
Agriculture	39.0	N.A.	34.7	33.5	(40.4) <u>c/</u>	N.A.	(52.0) <u>d/</u>	N.A.	55.1	
Procurement	11.2	N.A.	13.3	N.A.	(9.0) <u>c/</u>	N.A.	(10.5) <u>d/</u>	N.A.	(11.0) <u>e/</u>	
Trade					(1.0)	N.A.	1.6	N.A.	0.8	
Transport and communications	11.9	N.A.	14.3	N.A.	17.4	N.A.	21.5	N.A.	23.0	
Communal economy	5.0	N.A.	(5.0) <u>f/</u>	N.A.	(6.5) <u>f/</u>	N.A.	(7.5) <u>f/</u>	N.A.	(8.0) <u>f/</u>	
Other expenditures	31.5	N.A.	(32.5)	N.A.	(35.6)	N.A.	(31.0)	N.A.	(12.7)	
Social-Cultural Measures	<u>120.8</u>	<u>118.9</u>	<u>124.8</u>	<u>122.8</u>	<u>129.8</u>	<u>128.8</u>	<u>141.4</u>	<u>141.9</u>	<u>146.9</u>	
Education	59.0	57.3	60.0	58.5	62.1	61.1	67.2	N.A.	68.4	
Health and physical culture	21.9	21.7	22.8	22.3	24.8	24.2	29.3	N.A.	30.0	
Other expenditures	39.9	39.9	42.0	42.0	42.9	43.5	44.9	N.A.	48.0	
Administration	14.3	14.1	14.4	N.A.	14.3	N.A.	13.9	N.A.	12.6	
Defense	96.4	93.4	113.8	108.6	110.2	105.0	100.3	N.A.	112.1	
Internal security	N.A.	N.A.	(22.9) <u>g/</u>	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	
Loan service	7.0	N.A.	8.9	N.A.	9.8	N.A.	10.5	10.2	12.2	
Reserve fund, Councils of Ministers	N.A.	N.A.	6.1	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	
Allotments to special banks	N.A.	N.A.	1.4	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	
Other expenditures	34.5	37.0	4.2	50.0	30.7	N.A.	34.8	N.A.	34.8	
Total real expenditures	<u>451.5</u>	<u>443.0</u>	<u>476.9</u>	<u>460.2</u>	<u>487.3</u>	<u>N.A.</u>	<u>517.3</u>	<u>N.A.</u>	<u>541.0</u>	

* Footnotes for Table 5 follow on p. 15.

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Table 5
Soviet Budget Expenditures ^{a/}
1951-55
(Continued)

	Billion Rubles									
	1951 ^{27/}		1952 ^{28/}		1953 ^{29/}		1954 ^{30/}		1955 ^{31/}	
	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual
Retail price reductions	0	0	0	0	43.2	N.A.	15.7	N.A.	(0)	
Raising agricultural procurement prices	0	0	0	0	0	0	23.3	N.A.	22.5	
Revaluation of inventories	0	0	0	0	0	0	6.5	N.A.	(0)	
Total stated expenditures	<u>451.5</u>	<u>443.0</u>	<u>476.9</u>	<u>460.2</u>	<u>530.5</u>	<u>514.8</u>	<u>562.8</u>	<u>552.8</u>	<u>563.5</u>	

a. All figures in parentheses are estimates.

b. Information available indicates that the actual expenditures in the 1951-54 period for Industry; Transport and Communications; and Agriculture were somewhat less than here indicated. The cumulative 4-year expenditures for Industry amounted to 333.9 billion rubles; for Transport and Communications, 60.1 billion rubles; and for Agriculture, 150.7 billion rubles compared with 335.4, 65.1, and 164.9 billion rubles, respectively, in this table. On the other hand, the 4-year total actual expenditures for Procurement, Trade, Communal Economy, and Other Expenditures were somewhat greater -- 207.9 billion rubles compared with 201.2 billion rubles -- than estimated here. These discrepancies are small on the whole and do not affect either the interpretation or the conclusions presented herein. The information presently available is inadequate to determine the time distribution of the underfulfillment. ^{32/}

c. In 1953, allocations to agriculture and procurement were 39.9 billion rubles; in addition there was allocated 13.6 billion rubles, of which 4.1 represented a reduction in agricultural income tax. Thus total allocations to agriculture and procurement were 39.9 + 13.6 - 4.1, or 49.4 billion rubles. Allocations to procurement in 1953 are estimated at 9 billion rubles, leaving 40.4 billion rubles allocations to agriculture.

d. In 1954, allocations to agriculture and procurement from the budget were 62.5 billion rubles, of which it is estimated that 10.5 billion rubles were allocated to procurement.

e. In 1955 the agricultural allocation was listed as 55.1 billion rubles, not counting allocations to procurement. Allocations to procurement in 1955 are estimated at 11 billion rubles.

f. Communal Economy estimates are based on republic budget expenditures.

g. In 1952, allocations to internal security and administration from the Union and Republic budgets were 31.4 billion rubles; of this, administration expenditures are estimated to be 8.5 billion rubles, the same as 1951 administrative appropriations from the Union and Republic budgets. ^{33/} Total administrative allocations were 14.4 billion rubles; 5.9 billion rubles would be spent by local budgets. Allocations to internal security then would be 31.4 billion minus 3.5 billion rubles, or 22.9 billion rubles.

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expenditures. Undisclosed and secondary items of expenditure have remained equal to those planned for 1954, these expenditures having remained at the same level throughout the Fifth Five Year Plan.

In Financing the National Economy, heavy industry will receive an increase in allocations amounting to 21 billion rubles or 27 percent. Light industry and trade will receive less financing from the budget than last year. Agriculture and transport will receive slightly increased allocations from the budget. The other expenditures category within Financing the National Economy will fall by about 18 billion rubles, strongly implying that there may be some accounting transfer from other expenditures to heavy industry. Financing capital investment is planned at a figure slightly below 1954 planned investment, although it is possible that the two figures are not entirely comparable, because of a change in definition. About 49 percent of allocations under Financing the National Economy will be spent on capital investment.

A. Financing the National Economy.

The sector Financing the National Economy is exceptional in Soviet financial practice in that the state budget furnishes only a part of the flow of funds to the sector. In addition to state budget funds, this sector finances a considerable portion of its outlays from earnings of various economic organizations which remain after meeting the profit tax liabilities of the respective firms or ministries, and from the extension of bank credit. Thus any comprehensive analysis of sector expenditures must consider state budget outlays and organizational outlays as well as bank credit. To simplify direct study of the state budget, considerations of outlays for financing the national economy have been divided in this presentation. Flows from the state budget are considered first. Subsequently, the combined state budget and organizational flows are considered together. It is the latter consideration that is of primary importance to the conduct of the Soviet economy. Information on the role and magnitude of Soviet bank credit is not yet sufficiently firm to permit integration of this data into the present analysis.

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In 1955 the sector Financing the National Economy will receive 222.4 billion rubles, compared with 213.4 billion rubles in 1954. Expenditures under this category go to economic organizations for new capital investment, expansion of working capital, repair, subsidies, and other operational expenditures. In order to establish trends, rough estimates for these items are shown in Table 6.*

1. New Capital Investment.

It now seems well established that announced capital investment in the national economy pertains to the budget category Financing the National Economy, and does not cut across all budget categories. 34/ There is apparently additional investment involved within other budget categories -- Social-Cultural Measures and Administration. 35/ Since 1949, budgetary investment in the sector Financing the National Economy has accounted for about 55 percent of the sector total, but in 1955 the apparent allocation to investment fell to 49 percent of total outlays.

2. Expansion of Working Capital.

Expansion of working capital is defined as that working capital needed for planned production expansion and newly built enterprises coming into operation. 36/ As in the case of investment, all of the announced budget allocations to this item fall under Financing the National Economy.

3. Capital Repairs.

Very little has been published in the postwar period on the amount of capital repair for any given year. In 1951 it was announced that total planned repairs were to amount to 29.1 billion rubles, 37/ and in 1955 it was announced that planned repairs in industry alone were to be 18.7 billion rubles. 38/ It has been assumed, on the basis of the 1941 plan, that about 25 percent of repair funds come from the budget. This portion has been applied to estimates of repairs for the Fifth Five Year Plan period. 39/

* Table 6 follows on p. 18.

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Table 6
 Financing the National Economy in the Soviet Budget a/
 1951-55

	Billion Rubles				
	1951	1952	1953	1954	1955
Investment in fixed capital	98.0	98.1	106.7	116.3	109.3
Expansion of working capital	5.4	4.6	4.3	4.8	5.9
Capital repairs	(7.3)	(7.2)	(8.2)	(9.1)	(10.0)
Operational expenditures					
Machine Tractor Stations	(12.8)	(13.8)	(15.5)	(21.5)	(23.1)
Other agriculture	(9.3)	(6.2)	(8.4)	(9.5)	(10.5)
Procurement	(10.0)	(12.0)	(9.0)	(10.5)	(11.0)
Other, including	(24.3)	(25.0)	(28.1)	(25.6)	(13.9)
Communal economy					
State reserves					
Atomic energy					
Gold purchasing					
Residual, including	(11.4)	(13.5)	(12.3)	(19.1)	(38.7)
Operational expenditures to industry and transport Financing planning organizations					
Total	<u>178.5</u>	<u>180.4</u>	<u>192.5</u>	<u>216.4</u>	<u>222.4</u>

a. All figures are plan figures. Figures in parentheses are estimates discussed in the text. Figures in first two rows are from Table 12, p. 34, below.

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4. Operational Expenditures.

The operational expenditures noted in Table 6 are a mixture of subsidies, government purchasing, and direct budget accountability of the gross operations of certain organizations classed as "budgeting" institutions. In the latter organizations, all organizational receipts are treated as budget income, and all organizational outlays are treated as budget expenditures.

The Machine Tractor Stations receive all of their expense funds from the budget. In 1954, out of a total MTS allocation of 31 billion rubles, about 9 billion rubles were spent for investment. In 1955 a like amount is estimated for investment, out of an appropriation of 32.6 billion rubles. The increased appropriation is attributed solely to increased operational costs.

Other operational expenditures in agriculture are allocated to state farms, forestry, agricultural experiment stations, and other unspecified agricultural projects.

The Ministry of Procurement receives large sums from the budget for working capital. In addition, this ministry receives an allocation for meeting the difference between procurement and purchase prices of the goods which it purchases. For example, when a kolkhoz sells goods to a procurement organization at a price higher than the obligatory procurement price (purchase price), the procurement organization values the sale on its own books at the obligatory procurement price, pays the kolkhoz the higher purchase price, and receives compensation from the budget for the difference. 40/

The category Other Expenditures in the sector Financing the National Economy includes communal enterprises, motor transport and highways, state reserves, gold purchases, probably atomic energy, and other minor activities. In 1955, total appropriations for this category declined about 18 billion rubles, and there was a corresponding rise in allocations to heavy industry. The amount of investment in the category Other Expenditures is difficult to estimate; 30 percent has been assigned arbitrarily, based upon 1948 and 1949 information. 41/ Working capital for these activities is probably high because of the nature of their function. Thus, even if the investment guess is far off for any one year, at least the general magnitude of the category would be obtained by this procedure.

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State reserves purchases, gold purchases, and the development of nuclear weapons probably account for a considerable amount of operational funds. Before the war the two former items accounted for about half of the category 42/ Other Expenditures. In 1953 this category increased. In that year there was a general reshuffling of categories within the category Financing the National Economy.

5. Residual.

The residual item includes all operational expenditures which would be allocated to industry and transport. Certain organizations in these categories are supported wholly by the budget, such as planning organizations of various ministries and departments -- which received 3.7 billion rubles in 1951. 43/ Some MVD economic operations are included such as mining, construction, and road-building activities. 44/ Included also are expenditures for training, research and inventions, and subsidies, about which very little is known at the present time. Assuming some relevance to the estimates here made, there is left in this residual some amount of funds which could conceivably be applied to subsidization of unprofitable enterprises.

Concerning subsidies, Malenkov announced in 1953 that in 1952 "losses of unprofitable enterprises amounted to 16 billion rubles." 45/* Soviet literature declares that planned losses can be covered either by state subsidies or profits of other enterprises. 46/ Planned losses of a plant are, in the main, supposed to be made up by the plant's chief directorate through redistribution of profits collected from the more profitable plants of the chief directorate. During and immediately after the war, however, there was a considerable amount of subsidization of heavy industry because costs rose to high levels and prices were maintained at the 1939-40 level. 47/ In 1948-49 there was an attempt to abolish subsidies in industry and transport by raising release prices of raw materials and equipment. It is evident from budget data that at that time subsidies were reduced considerably; whether they were wholly abolished is questionable. It is inescapable

* Since it was not known at the time to what extent profits were redistributed within chief directorates or ministries, it was suggested that the entire amount of 16 billion rubles might reflect subsidies from the budget. Such a proposal seems extremely improbable, however, from inspection of the estimates in Table 6, p. 18, above.

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that at present there could very well be some degree of subsidization, particularly in view of the increasing complexity and high cost of military end items. (See the discussion below.) The initial use of atomic power in industry may also demand some subsidization. The Russians state that 48/

As a result of lowering costs, regulating wholesale prices on products of the branches of heavy industry and freight tariffs in 1949, the system of subsidies in industry, and even in transport was in the main liquidated. At the present (1954) it is used as a temporary measure in regard to separate enterprises, which in the first period of operation still need them.

The residual category of Table 6 rose significantly in 1954 and 1955. In 1954 it probably indicates increases across the board in items contained in the category, such as subsidization, training, and research and inventions. In 1955 the increase in this category is much greater than in 1954, and there is a corresponding decrease in operational expenditures in the category Other Expenditures. The increase in the residual category, however, is almost twice as great as the decrease in Other Expenditures, indicating a net rise in the residual which amounts to about 7 billion rubles and would be applicable to the items listed above. This increase, like that of 1954 of 5 billion rubles, may very well reflect subsidization of the initial stages of the production of new end items. The cost of developing and initially producing modern air and sea craft is certainly high enough to warrant such an increase in expenditures.

As noted above, the figures in Table 6 indicate a transfer of about 12 billion rubles in operational expenditures from the category Other Expenditures to the residual in Industry and Transport. Table 5, however, indicates a transfer of about 18 billion rubles in operational expenses plus other allocations from the category Other Expenditures to Heavy Industry. This leaves, then, a transfer of about

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6 billion rubles of nonoperational expenditures of capital investment, repair, and expansion of working capital. Thus in the items that transferred, about one-third of their appropriation goes to investment and repair.

6. Sources of Financing the National Economy.

It is evident in Tables 7 and 8* that total outlays for Financing the National Economy in 1955 will increase but little compared with increases in 1953 and 1954. This in itself might be taken to indicate that the 1955 budget was less inflationary, were it not that some of the budget surplus is used for credit investments in the national economy. 49/ With the increase in the surplus this year, it might be expected that there will be an expansion of bank credit which may in part compensate for the small increase planned in noncredit financing. Zverev, in fact, mentions the availability of credit for expanding production in light industry immediately after announcing a decrease in allocations to that sector. 50/ Even taking into account the larger surplus, however, there remains a smaller increase in spending planned for the national economy in 1955 than in 1953 and 1954. This deflationary trend is reflected in several measures taken in the latter part of 1954 to increase efficiency in the economy by freeing manpower and material tied up in administration; 51/ above-norm supplies of stocks, 52/ unfinished construction work, 53/ and funds tied up in overdue loans on goods in transit. 54/ Decreased investment financing also has been publicly connected with increased efficiency. 55/ Some of this activity also may be part of an effort to consolidate the economy in preparation for the new 5-year plan which will begin next year.

a. Heavy Industry.

One of the most significant aspects of the budget for 1955 is a large increase in budget and nonbudget allocations to Heavy Industry that is evidently not accompanied by a corresponding increase in investment in Heavy Industry. The increase in budget allocations is about 18 billion rubles, and from Industry's internal funds, about

* Tables 7 and 8 follow on pp. 23 and 24, respectively.

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Table 7

Financing the National Economy of the USSR: Sources of Funds a/
1952-55

	Billion Rubles			
	<u>1952 b/ 56/</u>	<u>1953 57/</u>	<u>1954 58/</u>	<u>1955 59/</u>
Budget	178.8	192.5	216.4	222.4
Organizational funds	86.8	98.0	110.3	112.8
Total	<u>265.6</u>	<u>290.5</u>	<u>326.7</u>	<u>335.2</u>
Budget surplus	37.5	13.8	9.7	26.7

- a. Plan figures, except where noted.
b. Figures in this column are actual.

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Table 8

Financing the National Economy of the USSR: Distribution of Funds by Activity a/
1954 and 1955

	Billion Rubles					
	1954 <u>60/</u>			1955 <u>61/</u>		
	State Budget	Organizational Funds	Total	State Budget	Organizational Funds	Total
Industry	92.3	71.9	164.2	111.8	77.9	189.6
Heavy industry	79.7	53.5	133.2	101.2	62.4	163.6
Light industry	12.6	18.4	31.0	10.6	15.5	26.1
Agriculture	62.5	11.9	74.4	55.1	10.1	65.2
Procurement	b/	b/	b/	(11.0)	(2.0)	(13.0)
Trade	1.6	4.0	5.6	0.8	1.0	1.8
Transport and communi- cations	21.5	17.3	38.8	23.0	17.5	40.5
Other	38.5	5.2	43.7	20.8	4.3	25.1
Total	<u>216.4</u>	<u>110.3</u>	<u>326.7</u>	<u>222.4</u>	<u>112.8</u>	<u>335.2</u>

a. Plan figures. Figures in parentheses are estimates.

b. Included in agricultural appropriation.

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7 billion rubles, as shown in Table 9.* Likewise the budget presents a decrease of 18 billion rubles in the category Other of the national economy. It is suggested that there may have been an accounting transfer of appropriations for some item from the category Other to Heavy Industry. There is no evidence of any large actual increase in expenditures in heavy industry, and it is otherwise impossible to explain logically the fact that expenditures in the category Other, which contains state reserves and possibly atomic energy, are being halved and expenditures to heavy industry sharply increased. Zverev seems to want to reassure the listeners and readers of his speech that there is not an expansion in heavy industry that would warrant the apparent increase in allocations. He gives the major noninvestment expenditure items that would be connected with expansion for all of industry together with capital investment expenditures for heavy industry. 62/ He does not give any of this information for other branches of the economy. The likelihood of transfer of various items is discussed below.**

The increase of appropriations to Heavy Industry from internal financing seems to be more the result of change in financing technique than a transfer of traditional accounting entries. This position appears tenable for two reasons. First, the displacement of funds from internal financing is not as great as occurs in budget financing. Second, there is statistical evidence that points to some relative changes in internal financing among branches of the economy. Data from Table 9* indicate that there is some shift in financing techniques for 1955. Heavy industry will increase its nonbudget outlays for capital investment while the nonbudget financing of other branches for capital investments will relatively decline. At the same time, there seems to have been a slight decline in nonbudget financing from the category Other so that some of the increase in nonbudget financing of heavy industry could be attributed to a change in categories. Although a change in financing techniques may have provided for the major increase in heavy industry nonbudget financing, the proposed change in categories probably also provided for some of the increase.

* Table 9 follows on p. 26.

** See p. 30, below.

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Table 9

Financing Soviet Heavy Industry a/
1954 and 1955

	Billion Rubles	
	<u>1954</u>	<u>1955</u>
<u>Nonbudget Financing</u>		
Total	110.3	112.8
Heavy industry	53.5	62.4
Other	56.8	50.4
<u>Capital Investment</u>		
Total	169	167.2
Heavy industry	90	93.5
Other	79	73.7
<u>Capital Investment</u>		
Total	169	167.2
Budget-financed	116.3	109.3
Nonbudget-financed	52.7	57.9

a. All data taken from Table 8, p. 24, above, and Table 12, p. 34, below.

b. Light Industry.

Allocations to Light Industry from both budget and nonbudget sources will decline in 1955 by about 12 percent from 1954 planned levels. This decline may be explained by the fact that, in the initial stages of the new consumer goods program, more money was needed for the expansion of light industry than in the second year of the program. It also means that an increasing amount of production

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expansion will be covered by state bank credit. Zverev mentioned the availability of credit for this purpose in his speech and also in a recent article on the state bank reforms of August 1954. He said that increasing credit will be given "enterprises for expenses to organize and develop the production of consumer goods and to better their quality." 63/

c. Agriculture.

Allocations to Agriculture in 1955 are planned at 65.2 billion rubles, as compared with 74.4 billion rubles in 1954. In 1953, however, there has been a change in the definition of the agricultural category, and the Procurement item has been omitted. 64/ It is estimated that Procurement allocations amounted to about 12 billion rubles in 1954.* Allocations to Agriculture, therefore, apparently have risen slightly over 1954. Agricultural allocations provide for the full support of the Machine Tractor Stations, investment and some working capital for sovkhozes, and funds for experimental stations and general projects in afforestation and irrigation. The breakdown of the 1955 agricultural budget is presented in Table 10.

Table 10

Soviet Agricultural Budget a/ 65/
1955

	Billion Rubles	
	<u>Allocation</u>	<u>Investment</u>
Ministry of Agriculture		
Machine Tractor Stations	32.6	(9.5)
Other	8.2	
Ministry of State Farms	9.7	6.6
Other, general projects	4.6	
Total	<u>55.1</u>	<u>(21.0)</u>

a. Figures in parentheses are estimates.

* Further discussion of allocations to Procurement follows on p. 31, below.

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Allocations to the new lands from the 1955 budget will amount to 11 billion rubles -- 5 billion from the MTS budget and 6 billion from sovkhos allocations. 66/ Two-thirds of the Ministry of State Farms allocation will go to the new lands program, and most of this money will probably involve investment funds. The effect of the new lands program on the agricultural budget has been to increase capital investment by about one-third and to increase the operational expenditures of the Machine Tractor Stations by about one-fourth.

Budget allocations to agriculture (as shown in Table 11) as a portion of total allocations to the national economy were 22 percent in 1951, 19 percent in 1952, and 25 percent in 1955.

Most of the increase in agricultural allocations has gone to the Machine Tractor Stations. This organization has increased its share of the agricultural allocation from 49 percent in 1951 to 59 percent in 1955. Increases in other allocations to agriculture have occurred principally in state farms and general projects.

Table 11

Soviet Planned Allocations to Agriculture a/
 1950-55

	Billion Rubles					
	1950 <u>67/</u>	1951 <u>68/</u>	1952 <u>69/</u>	1953 <u>70/</u>	1954 <u>71/</u>	1955 <u>72/</u>
Machine Tractor Stations	(20.0)	(19.0)	17.0	(20.0)	30.8	32.6
Ministry of Agriculture, less Machine Tractor Stations	(7.0) <u>b/</u>		5.0 <u>b/</u>			8.2
Ministry of Sovkhozes	(8.1)					9.7
Residual, general projects	1.5					4.6
Total	<u>36.6</u>	<u>39.0</u>	<u>34.7</u>	<u>(40.4)</u>	<u>(52.0)</u>	<u>55.1</u>

a. Figures in parentheses are estimates.

b. Does not include allocations to the Ministries of Cotton Growing and Forestry, then separate from the Ministry of Agriculture.

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The decline in 1952 of allocations to the Machine Tractor Stations could represent a shifting of priorities away from agriculture because of the Korean War, but it probably also reflects the price reductions on capital equipment effected that year. The significant increase in the residual, which includes afforestation, irrigation, and construction of dams and reservoirs, is due partly to new plans for the large-scale irrigation of cotton-growing areas in Central Asia and other new schemes of the same sort. The state farm budget of 1950 included a 3.7-billion-ruble allocation for carrying out the 3-year livestock plan (1949-51) 73/; in 1955 some of that allocation has been replaced by investment in state farms on the new lands. It is difficult to analyze agricultural allocations in 1953 and 1954, since total allocations are only estimates. Outside of MTS allocations, which are given, a rise or fall of 2 billion to 3 billion rubles is significant, and yet such a rise or fall could be wholly due to erroneous estimates of the total allocation. It remains that the 1955 allocation to Agriculture includes significant sums for investment in the new lands program and that allocations to Agriculture have increased considerably as a percentage of total allocations to the national economy since 1952.

d. Trade.

Allocations to Trade from budget and nonbudget sources in 1955 are scheduled to be less than half of planned allocations in 1954. This reduction may be in part a result of economies to be made in working capital, but the major amount is probably the result of a scheduled decline in investment in the trade network. The government may feel that the large investment program in the trade network in 1954 was sufficient to permit the immediate improvement of trade facilities required, particularly in view of the modest increases in availability of goods. Long-term credit, the uses of which are not specified in the budget announcements, also may be used for trade investment, thereby permitting the continued expansion and improvement of retail outlets.

e. Transport and Communications.

Allocations to Transport and Communications increased again in 1955. Inasmuch as 2,000 kilometers of railroad are to be built 74/ during 1955 in the new lands, it seems likely that other

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expansion of the rail system may be strictly limited. Almost all the increase in Transport and Communications allocations will come from the budget, nonbudget funds remaining at the same level as in 1954. Communications as well as Transport investment located in the new lands will be financed almost entirely out of budget funds. The high level of these immediate requirements probably will exceed the small increase in outlays to the sector, with the result that investment funds for other activities will suffer.

f. Other Expenditures in the National Economy.

Before the war this category contained the following items 75/: Housing and the Communal Economy; State Reserves; Chief Directorate of Hydrometeorology; Ministry of Automobile Transport and Highways; Ministry of Finance, Chief Directorate of Precious Metals; Chief Directorate of Geodesy and Cartography; and Chief Resettlement Directorate. It is speculated that development of nonconventional weapons is also included in this category. In 1955, as has been mentioned above, there has been a decrease in this category of about 18 billion rubles, and Heavy Industry appropriations have increased by 20 billion rubles. It is implied that there has been a transfer of items out of the category Other into the category Heavy Industry. The most likely item to shift would be the hypothetical item Atomic Energy. It seems most unlikely that items such as Housing and the Communal Economy or State Reserves would transfer to Heavy Industry, first, because these items pertain to more sectors of the economy than just Heavy Industry, and second, because these items have been located in this category since before the war, and there seems to be no logical reason for a shift.

It is possible to estimate out of this category housing and the communal economy on the basis of allocations in Republic budgets. Although such allocations are not at present available for 1955, it probably can be estimated that these expenditures will rise slightly over 1954 and amount to about 8 billion rubles, leaving about 13 billion rubles for all other expenses. In the 1941 budget plan, allocations to State Reserves and gold purchasing amounted to about half of the comparable category.

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B. State Budget and Procurement.

Since 1953 there have been two sets of figures concerning the relation of procurement organizations to the budget. One is the allocation from the category Financing the National Economy that has existed since before World War II and applies primarily to "compensation for the difference" between purchase and procurement prices (see explanation of this expense, above*). The other figure connected with procurement expenditures is defined as "expenses connected with the raising of procurement and purchase prices on agricultural products done in 1953." 76/ The latter sum is taken to represent the loss to the state resulting from the raising of procurement and purchase prices in 1953.** It

* P. 11, above.

** There seems to be some question as to whether or not grain purchase prices were raised in 1953 or 1954. In 1954 a decree of the June Party Plenum contained an announcement that grain prices were being raised and delivery quotas lowered, and this was taken to be the first appearance of any measures in raising prices and lowering quotas for grain. There is some evidence, however, that the purchase prices of grain were raised in 1953. An editorial in Voprosy ekonomiki in 1953 states 77/:

The Party and government, already in the present year, have decided to increase markedly the procurement prices of meat, milk, wool, potatoes, and vegetables delivered as obligatory deliveries; to also increase purchase prices for surpluses of grain, vegetables, potatoes, and livestock products of kolkhozy and kolkhozniki who have fulfilled their obligatory deliveries.

And in the recently published textbook on political economy, 78/

... lower procurement and purchase prices on potatoes, vegetables, milk, meat and grain inhibited their production. The significant raising of procurement and purchase prices on these products, done in 1953 by decree of the Soviet of Ministers and Central Committee was a very important stimulant to raising their production.

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represents losses to the budget and is treated in 1954 and 1955 in the same manner as the losses to the budget from price reduction. It is entered on both sides of the budget, and turnover-tax revenues decline accordingly, the turnover tax being the source for financing the increase in prices. When the state procurement price is raised and the retail price remains level, the difference, which is the turnover tax, is cut.

This additional procurement expense is thought to represent that amount of increase in the total state procurement and purchase bill which is the result of price increases effected in 1953. In other words, if the increase in the bill in 1954 is 25 billion rubles and if, of that amount, the sum of 22 billion rubles is attributable to the 1953 increase in prices, then had prices not been raised, the increase in the bill would have been 3 billion rubles. Since the source for the increase in procurement prices is the turnover tax, planned tax receipts for 1954 (other things being equal) would be 22 billion rubles less than in 1953. In 1954 this procurement figure representing state losses from the price changes of 1953 was 23.3 billion rubles. In 1955 the same figure representing losses from the increases in procurement prices made in 1953 was 22.5 billion rubles. This slight decline in 1955 is hard to explain, since it would seem that there is planned a smaller volume of procurement in 1955 than was planned in 1954 for those items whose prices were raised in 1953. A number of factors could contribute to this situation. There may have been closer planning in 1955 -- the procurement plan was probably underfulfilled in 1954, so that the 1955 plan figure may actually be higher than the 1954 actual.* In addition, if state losses from 1953 price changes take into account an increase in the volume of procurements and purchases which is directly resultant from price changes, then it would be logical that such increments in volume would be less in the second year after the price change than in the first year of the price change. This could not be the sole reason for the lower 1955 figure but may be a contributing cause, since it is doubtful that volume of procurements in 1955 is planned lower than was planned in 1954.

* Total state investments for 1951-54 have been announced in 1 July 1950 prices. The portion financed from the budget is by definition in current prices, and the difference between 1950 and current prices is accumulated under internal sources of financing and treated as a separate source -- that is, savings from the 1 January 1952 price reductions. 79/ Therefore, the relationship between budget-financed investment and total state investment is not what the figures might indicate.

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C. Capital Investment.

Total allocations to investment in fixed capital and expansion of working capital usually are outlined in the budget presentation with specific reference to the amount which will come from the budget and the amount which will come from enterprises' own funds. (See Tables 12, 13, 14 and 15.*) About 70 percent of the value of total state investments is financed from the budget.** The remainder of state investments is financed from enterprises' internal funds, derived principally from amortization deductions and profits set aside for investments. A small additional fund for investment comes from Directors' Funds and certain receipts and bonuses. From 1.5 to 2 percent of the total cost of investment is planned to be financed each year from increased efficiency in construction, and periodic official price reductions of materials and equipment also reduce the monetary resources needed to attain a given volume of investment. The amount of savings derived from increased efficiency and price reductions is considered a source of financing.

Outlays for state investments in the national economy in 1955 are planned to be 167.2 billion rubles, of which the budget will provide 109.3 billion rubles and enterprises will provide 57.9 billion rubles. This is an apparent decrease of 2 billion rubles below announced planned investments for 1954 and a small increase over estimated actual outlays for investment in 1954. The planned level of investment in 1955 is adequate to fulfill the Fifth Five Year Plan goal for total investment. As in all previous years of the postwar period, including 1953 and 1954, Heavy Industry will receive over 50 percent of total state investment funds. Outlays for Agriculture, Transport and Communications, and Housing will rise slightly above actual expenditures in 1954, while consumer-oriented industries and internal trade will invest less than in 1954. Several reasons may be suggested for the apparent leveling off of investment outlays in 1955.***

* Tables 12, 13, 14, and 15 follow on pp. 34, 35, 38, and 40, respectively, below.

** See footnote *, p. 32.

*** Continued on p. 36.

Table 12

Soviet Planned Capital Investment and Expansion of Working Capital
1951-55

	Billion Rubles				
	<u>1951 ^{80/}</u>	<u>1952 ^{81/}</u>	<u>1953 ^{82/}</u>	<u>1954 ^{83/}</u>	<u>1955 ^{84/}</u>
Investment in fixed capital					
Budget	98.0	98.1	106.7	116.3	109.3
Enterprises' own funds	34.0	45.0	49.4	52.7	57.9
Total	<u>132.0</u>	<u>143.1</u>	<u>156.1</u>	<u>169.0</u>	<u>167.2</u>
Expansion of working capital					
Budget	5.4	4.6	4.3	4.3	5.9
Enterprises' own funds	5.9	6.1	10.8	11.1	7.1
Total	<u>11.3</u>	<u>10.7</u>	<u>15.1</u>	<u>15.9</u>	<u>13.0</u>
Total investment and expansion of working capital					
Budget	103.4	102.7	111.0	121.1	115.2
Enterprises' own funds	39.9	51.1	60.2	63.8	65.0
Total	<u>143.3</u>	<u>153.8</u>	<u>171.2</u>	<u>184.9</u>	<u>180.2</u>

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Table 13

Soviet Investments in the National Economy a/
1953-55

	1953 <u>b/</u>		1954 <u>c/</u>		1955 <u>d/</u>	
	Total Allocation	Investment	Total Allocation	Investment	Total Allocation	Investment
Industry	N.A.	87.6	164.2	104.4	189.6	(105.0)
Heavy industry	N.A.	80	133.2	90.0	163.6	93.5
Light industry	N.A.	7.6	31.0	14.4	26.1	(11.5)
Agriculture	N.A.	12.0		21.0	65.2	(21.0)
Procurement	N.A.	N.A.	74.4	N.A.	(13.0)	N.A.
Trade	N.A.	2.0	5.6	4.0	1.8	(1.0)
Transport and communications	N.A.	17.7	38.8	18.6	40.5	(20.0)
Other	N.A.	(25.7)	43.7	21.0	(25.1)	(20.2)
Total	N.A.	(145.0)	326.7	169.0	335.2	167.2

a. Plan figures, except where otherwise noted. Figures in parentheses are estimates.

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There is accumulating evidence that the figures announced for planned investment in 1955 are not comparable to figures for previous years of the Fifth Five Year period, because of a change in pricing. ^{89/} Whereas in previous years planned investments were announced in 1 July 1950 estimate prices, 1955 investment figures appear to be on some new basis, although nearer to constant 1950 prices than to current prices. Use of current prices would result in an increase in total investments for 1955 of 8 to 10 percent.

There are other possible reasons for a lower rate of investment, however, which cannot be disregarded. Soviet officials have expressed concern over the development of a disequilibrium in investments from overproduction of certain types of machinery and equipment, a serious lag in the completion of buildings under construction, and dispersion of investment resources among too many projects. ^{90/} It appears that 1955 will witness a concentration of resources on construction, particularly on projects planned to be completed in the Fifth Five Year Plan period, with a postponement of initiation of new construction projects. ^{91/} The rate of production of machinery and equipment for addition to fixed assets may decline, freeing facilities for production of military end items, consumer durables, or spare parts and tools for current operations and repairs. There has been criticism of the level of construction costs and an emphasis on strict economy in 1955. Intensified efforts to reduce construction costs would permit a given volume of capital work at a lower level of expenditure. Also it was announced in the budget law that there would be a reduction in equipment prices and freight charges on 1 April 1955. ^{92/} Although it was stated that these reductions had not been taken into account in the budget, a knowledge of these reductions may have precipitated the reduction of budget allocations to investment.

1. Heavy Industry.

The portion of total state investments going to Heavy Industry in 1953, 1954 (plan), and 1955 (plan) has been 55, 53, and 56 percent, respectively. Increases in investments in Agriculture and consumer-oriented industries in 1954 were not planned at the expense of investment in Heavy Industry but were planned to arise from a sharp increase in total investment. The increase in investment in Heavy Industry planned for 1955 is very modest in the light of policy statements emphasizing the growth of heavy industry and in view of the sharp rise in total allocations to Heavy Industry.

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2. Light, Food, and Local Industry and Internal Trade.

The share of total state investments in light, food, and local industry rose from 5 percent in 1953 to 8.5 percent in the 1954 plan, falling back to about 7 percent in the 1955 plan. Because the 1954 plan was not fulfilled, however, the 1955 plan may not represent a drop in actual investment expenditure. The major change in 1955 investment is the reappearance of emphasis on local procurement of materials rather than central procurement and the high building priorities which existed in 1954. Local procurement and low building priorities traditionally have increased the difficulty of fulfilling the plan because of the subordinate position of local activity in the general pattern of resource allocation. Investment in internal trade in 1955 apparently will decline drastically, as is indicated by the fact that total financing of internal trade will fall from a planned 5.6 billion rubles in 1954 to 1.8 billion rubles in 1955. Investment in trade enterprises from state sources is expected to fall from about 3 billion rubles in 1954 to about 1 billion rubles in 1955.

3. Agriculture.

State agricultural investment in 1955 probably will increase somewhat over actual investment outlays for 1954. Approximately one-half of these funds are allocated to the Machine Tractor Stations to be used for the purchase of machinery and equipment and for the construction of buildings. Allocations to the Machine Tractor Stations for the development of the new lands are 5 billion rubles, 93/ at least half of which probably will be spent on investment. About one-third of state agricultural investment will be allocated to sovkhozes. It is thought that more than one-half of these funds will be used in new lands for purchase of machinery and equipment, for expenses connected with breaking the new lands, and for construction. Almost two-thirds of the total allocation to sovkhozes, 9.7 billion rubles, will be spent in the new lands. 94/ The balance of state agricultural investment (other than MTS and sovkhoz) will be used for other purposes, such as forestry, irrigation, cotton growing, development of electric power, and afforestation.

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Whereas state agricultural investments are financed almost entirely from the budget, collective farm (kolkhoz) investments are not part of state capital investment and kolkhozes receive no budget funds for investment. Their funds come mainly from money income set aside for investments, from long-term bank loans, and from investment in kind (kolkhoz labor and natural increments to the herd). Because of the difficulty of evaluating investment in kind, this category is omitted here. New Soviet agricultural policies have emphasized the necessity of increases in kolkhoz investment, especially for the construction of better farm buildings, the purchase of machinery and equipment for further mechanization of operations, the development of power facilities, and the purchase of fertilizer. Table 14 shows agricultural investments for 1952-55 (plan) including both state and collective (kolkhoz) sectors.

Table 14

Soviet Agricultural Money Investment a/ 95/
 1952-55

Billion Current Rubles

	<u>State Investment</u>				<u>Kolkhoz Money Investment</u>			<u>Grand Total</u>
	<u>MTS</u>	<u>Sovkhoz</u>	<u>Other</u>	<u>Total</u>	<u>Long-Term Loans</u>	<u>Own Funds</u>	<u>Total</u>	
1952 (actual)	(3.7)	(2.9)	(7.0)	(13.5)	2.7	8.2	10.9	(24.4)
1953 (actual)	(5.1)	(2.0)	(4.9)	12.0	2.8	9.7	12.5	(24.5)
1954 (planned)				21.0	3.9			
1954 (actual)	(9.3)	5.3	(3.4)	(18.0)	4.1	12.4	16.5	(34.5)
1955 (planned)	(9.5)	6.6	(4.9)	(21.0)	5.2	12.8	18.0	(39.0)

a. Figures in parentheses are estimates.

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The state has increased loans to kolkhozes greatly in 1954 and 1955, probably in part for funds needed for the development of new lands, since about one-half of the new lands will be organized as kolkhozes. ^{96/} As a result of increases in state procurement and purchase prices of agricultural products of kolkhozes, an increasing amount of kolkhoz income had been available for investment. Table 14* indicates that there has been a 50-percent increase since 1952 in agricultural money investment, with increases in the state and collective sector being about equal.

4. Transport and Communications.

Investments in Transport and Communications should increase both absolutely and as a percentage of total investments in 1955 because increasing services are required for the new agricultural lands and because the transport investment schedule for the Fifth Five Year Plan period seems to be far behind plan. The portion of state investments devoted to Transport and Communications in 1953, 1954 (plan), and 1955 (plan) has been about 12, 11, and 12 percent, respectively.

5. Other Investments (National Economy).

Other investments in the national economy include increases in the working capital of construction organizations, investments in municipal services and municipal housing, the construction of buildings and other fixed assets of state reserves and procurement organizations, and an unknown degree of expenditures on development of nonconventional weapons and possibly some special construction and other minor investments. No effort is made to break down residual investments, the total of which has ranged from 20 billion to 25 billion rubles for the last 3 years.

6. Housing.

Housing investment as such is not a separate entry in the investment budget but is a part of investment in other sectors. For example, about 15 percent of industrial investment is in houses for workers and employees. State housing investment is presented in Table 15.**

* P. 38, above.

** Table 15 follows on p. 40.

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Table 15

Soviet State Investments in Housing a/ 97/
1953-55

<u>Billion Current Rubles</u>	
1953 (actual)	19.5
1954 (planned)	25.5
1954 (actual)	(23.1)
1955 (planned)	24.6

a. Figure in parentheses is an estimate.

Although the planned increase in housing investment for 1954 was 31 percent, the actual increase was only 19 percent. The 1955 plan envisages a 6-percent increase in housing outlays over 1954. Despite the absence of any reference to housing in the 1953 plan promises, there has been and continues to be a considerable effort under way to increase Soviet housing construction. The 1955 planned housing investments will almost certainly guarantee fulfillment of the Fifth Five Year Plan goals, a unique accomplishment in the history of Soviet planning in that field.

7. Other Investments.

There has been some question as to whether or not the announced figure for "investment in the national economy" includes investments in military installations, in social and cultural activities, and in administrative buildings and office equipment. It now appears certain that administrative and social and cultural investments fall outside of "investments in the national economy." 98/ An additional amount of from 5 to 10 billion rubles annually probably has been invested in these activities. It is assumed that military construction is included in defense appropriations and may amount to about 4 percent of such appropriations, or 4 billion to 5 billion rubles annually.

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Investments of kolkhozes, producer cooperatives, all capital repairs, all peasant investments in private housing and improvement of their private property, and all private urban housing almost certainly are excluded from the budget as well and would probably constitute yet an additional investment of 60 billion to 70 billion rubles annually.

D. Social-Cultural Measures.

Allocations to Social-Cultural Measures in 1955 are planned to be 146.9 billion rubles, or 26 percent of total budget expenditures as announced. The planned rise in these allocations is 3 percent. In 1954, there was an unusually large rise of 9 percent. Expenditures for Social-Cultural Measures cover general costs of education, health, social security, and social insurance.

1. Education.

Educational expenditures account for about half of the budget for Social-Cultural Measures. They include maintenance of schools (including technical schools) and the cost of educating skilled workers and technicians. Scientific research and maintenance of theaters and museums also are included under education. Capital investment and repairs are listed separately under educational expenditures. In 1955, several items in this category were given for the first time in recent years, as shown in Table 16. 99/

Table 16

Soviet Education Expenditures in 1955 a/

	<u>Billion Current Rubles</u>
Total education	<u>68.4</u>
Maintenance of schools	23.0
Preparing skilled workers <u>b/</u>	6.9
Preparation of cadres	15.0
Scientific research	(6.5)
Residual	16.6

a. Figure in parentheses is an estimate.

b. This item includes the preparation of skilled workers for agriculture and part-time training of technicians.

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Included in the residual would be allocations for maintaining children's homes and kindergartens, museums, theaters, literary publications, and capital repair and investment. A considerable sum apparently remains in this residual which is used for investment and which should be added to the national economy figure for investment.

Scientific research will receive about 10 billion rubles in 1955, about two-thirds of which will probably come from the budget. This category probably includes funds for research and development of weapons and weapons systems and other applied purposes as well as the conventional grants to pure scientific research. Allocations to scientific research since 1949 are shown in Table 17.

Table 17

Soviet Allocations to Scientific Research 100/
1949-55

<u>Billion Current Rubles</u>			
<u>Year</u>	<u>Budget</u>	<u>Organizational Funds</u>	<u>Total</u>
1949	6.6	2.5	9.1
1950	5.6	2.5	8.1
1951	5.3	2.7	8.0
1952	N.A.	N.A.	N.A.
1953	N.A.	N.A.	N.A.
1954	N.A.	N.A.	9.5
1955	N.A.	N.A.	10.5

2. Health.

Expenditures for health in 1955 will be 30 billion rubles. These outlays include funds for medical-prophylactic institutions and activities, medical aid to children, sanitary anti-epidemic institutions and activities, medical aid to invalids, and other expenditures, including capital repair and investment in medical institutions.

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Other expenditures under Social-Cultural Measures include social security (25 billion rubles), social insurance (18 billion rubles), and state aid to unmarried mothers and mothers with many children (5 billion rubles). The major portion of the social insurance and social security expenditures is used for awarding pensions and relief benefits to the population. 101/

E. Administration.

The post-Stalin Soviet leadership has undertaken a broad program directed at a large-scale reduction of administrative expenditures. 102/ Administrative expenditures subsume the outlays of all central administrative-control organs, such as the Ministry of Foreign Affairs, the State Planning Commission, and administrative overhead of all individual ministries and state judiciary bodies. Planned savings in this area were 6.5 billion rubles in 1953, 3.9 billion rubles in 1954, and 6.1 billion rubles in 1955. These savings are partly the result of reduced budget allocations to administration but primarily the result of savings in overhead expenditures by economic ministries. Oddly enough, this savings item is listed as a budget revenue and is treated somewhat like a 100-percent excess profits tax resulting from lowered costs.

F. Defense Expenditures.

1. Explicit Defense Expenditures.

Explicit Soviet Defense expenditures are those outlays made for maintaining the land, sea, and air forces of the USSR, or, in other words, all expenditures of the Ministry of Defense. Capital investment in defense plants is included in Financing the National Economy. Procurement of military end items is estimated to amount to about one-half of the Defense budget. Planned explicit Defense expenditures in the USSR for 1955 increased about 12 percent, thus more than restoring the 10-percent reduction in these outlays planned for 1954.

The explicit Defense budget has increased 35 percent in current rubles since 1950 (from 82.9 billion rubles to 112.1 billion rubles). Price reductions in the intervening years bring the increase to an estimated 45 percent. In terms of procurement the 1955 budget

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is about double that of 1950. There has as yet been no announcement as to actual expenditures for Defense in 1954. In view of the fact that actual expenditures fell short of budgeted allocations in 1954, it is quite likely that Defense expenditures were slightly underfulfilled. (Total expenditures were underfulfilled by 10 billion rubles, of which 2.5 billion may be attributed to Financing the National Economy and Social-Cultural Measures.) As a general rule, Other Expenditures also have been underfulfilled as a result of not using all of the reserve fund of the Council of Ministers.

Besides procurement of military end items, Defense expenditures include all outlays for personnel, including food, clothing, pay, housing, and servicing; capital construction of military facilities; repairs and other expenditures on operations and maintenance; and stockpiling of military end items.

In a broad sense, for certain internal accounting procedures, Soviet practice treats some procurement of military end items as accumulation. In the calculation of national income statistics, the Defense budget is split between the national income categories of accumulation and consumption. 103/ Procurement, investment, and stockpiling constitute accumulation, and personal services and maintenance constitute consumption.

The rise in the Defense budget in 1955 is probably due to an increased procurement bill, resulting in part from rising costs of modern military end items and in part from increased production of military end items occasioned by the Kremlin's continuing appraisal of its relative military position. It is difficult to say whether or not the temporary leveling off of investment in the national economy is a result of decisions to increase allocations to Defense. If such is the case, the current stress on heavy industry as opposed to light industry may have some basis as signifying a greater stress on defense production as opposed to civilian production. These would seem the more reasonably opposed forces than light and heavy industry, since the development of light industry is considerably dependent on heavy industrial equipment and also on increased agricultural production. The latter objective continues to be one of the primary tasks of the USSR.

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2. Other Defense Expenditures.

Other expenditures in the budget that might be considered Defense expenditures would be allocations for atomic energy and guided missiles. The location of such expenditures is purely speculative, but it is believed that there is room for them in the category Other in Financing the National Economy. Up until 1955 this category has amounted to about 30 billion rubles, and knowing the nature of the items it has in the past contained, it is difficult to understand such a high level of expenditures. The undisclosed budget residual, where it has been speculated that atomic energy expenditures exist, in 1952 was quite low -- 4.2 billion rubles (see Table 5*). Since 1952 the undisclosed portion of the budget has not been known, but the general category within which it exists has remained level, and there does not seem to be room for any significant defense expenditures.

The transfer of funds in 1955 from the category Other in Financing the National Economy to the category Heavy Industry may possibly reflect a transfer of some so-called Defense expenditures, since it is difficult to imagine any other of the items in the category Other being transferred (see discussion above).

G. Internal Security.

The internal security item, which includes appropriations for the police and border police functions of the MVD (Ministry of Internal Affairs) and KGB (Committee on State Security), usually is included in considerations of Defense expenditures. The economic activities of the MVD are included in Financing the National Economy. Internal security expenditures were last published in 1952. Since that time there probably has been some decline in these expenditures, in view of reorganization of the police apparatus and removal of some economic activities of the MVD. The decline in Other Expenditures, 70 percent of which in 1952 was devoted to internal security, would seem to validate this estimate. Strengthening of the KGB in 1955 by establishing a chair on the Council of Ministers of the Union and Union Republics 104 may possibly lead to increased expenditures for that organization.

* P. 14, above.

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H. Other Expenditures.

Items of expenditure not usually listed by the Supreme Soviet are the Reserve Fund of the Council of Ministers, allotments to special banks, and other unknown and minor expenditures. For 1952, these items can be broken down. Other minor expenditures amounted in that year to 4.2 billion rubles compared with 13.8 billion rubles in 1950. The rather constant level of Other Expenditures since 1952, when undisclosed items were only 4 billion rubles, indicates that there probably is no significant inclusion of strategic expenditures in that category in 1952-55.

The reserve fund of the Council of Ministers is considered by the Soviet planners in the same light as state reserves, and in fact represents in part a material reserve fund to be used at the discretion of the Council of Ministers for demands unforeseen by the annual plan. 105/ Another function of the reserve fund is the insurance of industry of Union and Union Republic import and of property of institutions supported by the Union and Union Republic budgets, in case of mishap, natural calamity, or other disturbances to the production process. 106/ It is interesting to note that both the Council of Ministers of the USSR and the Councils of Ministers of Union Republics have their own reserve funds. The reserve fund of the Council of Ministers of the USSR in 1952 was to amount to 6 billion rubles, and the reserve fund of the Councils of the Union Republics was to amount to 100 million rubles. 107/

This fund is primarily a monetary fund for use in emergencies, but it also includes material reserves. In both 1950 and 1952 it was planned at 6.1 billion rubles. 108/ It is estimated that in 1953 it amounted to a larger amount, in view of the changes in government and planning during that year.

Allotments to special banks are additions to the assets of those banks for the purpose of expanding long-term credits. This item probably was higher in 1954 and 1955 than in previous years because of the expanding of long-term credits to agriculture, housing, and possibly other fields of investment.

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I. Budgets of the Union Republics.

In 1955 the budgets of the Union Republics are to amount to 127 billion rubles, as compared with 119.5 billion rubles planned in 1954 and 102.6 billion rubles planned in 1953. 109/ Most of the growth of the republic budgets in 1955 appears in the budget for Kazakh SSR, which has doubled; it was planned at 5 billion rubles in 1954 and 10 billion rubles in 1955. Since 60 percent of a republic budget is devoted to social and cultural expenditures, it is estimated that most of the increase in the Kazakh budget is to be spent on social-cultural activities in the new lands and probably will supplement the announced allocation of 11 billion rubles which is to come from the agricultural budget for the new lands. All other republic budgets have remained about equal to last year's budgets.

Republic budgets grew more in 1954 than in previous years as a result of decentralization of economic organizations and increased authority at the republic level. The formation of republic ministries of coal industry in the Ukrainian SSR, nonferrous metallurgy in Kazakh SSR, and oil industry in Azerbaydzhan SSR as well as the formation of a Union Republic Ministry of Communications was announced in 1955, together with a transfer to republic control of a number of enterprises of the light, food, meat and dairy industries and sovkhoses and trading organizations. 110/ In the three republics listed above -- the Ukraine, Kazakh, and Azerbaydzhan -- budgets increased, whereas in all other republics, the budgets either remained equal to those of last year or decreased slightly. This would imply that the economy measures and tightening of financial control evident in the state budget are being carried down to the republic levels, and only where necessary, as in the case of the formation of republic ministries from former All-Union activities, are increased funds being made available for local spending.

J. Summary of Expenditures.

The tremendous increase in planned expenditures in 1954 compared with 1953 seems to have been checked in 1955 with a view toward increasing efficiency and finishing up the present 5-year plan in preparation for the inauguration of a new plan in 1956. Whereas Financing the National Economy and Social-Cultural Measures in 1954 together increased 15 percent, in 1955 they are planned to increase 4 percent. These two items

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account for about 68 percent of budget expenditures. Defense expenditures have shown an inverse trend; a 5-percent decrease was planned for 1954 and a 12-percent increase for 1955. Defense expenditures account for about 20 percent of the budget. Capital investment* will increase at a slower rate than planned in previous years of the current plan. The general consolidation and retrenchment evident in budget spending this year is probably as much a lid for keeping under control financial resources which were so extravagantly handled in 1954 as a preparation of a sound base for the inauguration of a new plan in 1956. The rise in Defense expenditures, which is estimated to have taken place entirely in defense procurement of military end items, may be, to a large extent, a necessary result of expanded production in 1954.

No particular shift in priorities is evident in this year's budget except as might be interpreted from the rise in defense expenditures. Development in agriculture is emphasized particularly as regards the new lands program. Heavy industry continues to be emphasized and the marked increase in noninvestment allocations to that sector contains an implied transfer of categories which might pertain to the development of nonconventional weapons. There is no evidence of possible inroads being made into military production as a result of development in other sectors.

Real changes evident in the 1955 budget pertain to financing and planning techniques rather than to priorities and sector development. The bank reforms of August 1954 and subsequent measures to rid the economy of surplus inventory stocks and excess manpower tied up in administration reflect a stress on efficient use of financial and material resources.

Soviet internal economic policy as reflected in recent budgets gives no indication of being aimed at immediate hostilities. The continued emphasis on heavy industrial development, however, benefits the defense base, so that the country is becoming increasingly well prepared for a possible outbreak of hostilities.

* There is some doubt as to whether the 1955 announced figure for planned investment is strictly comparable with the figures for previous years. In any case, however, the statement here made appears justified.

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