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ECONOMIC INTELLIGENCE REPORT

THE 1956 SOVIET BUDGET



CIA/RR 77
7 September 1956

CENTRAL INTELLIGENCE AGENCY
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CIA/RR 77

(ORR Project 14.843)

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Office of Research and Reports

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FOREWORD

The Soviet budget is the basic financial plan of the national economy and reflects the government's policy of allocation of resources. In addition, the presentation of the budget often serves as an occasion for exposition of current propaganda themes, such as the reduction in military expenditures claimed in the 1956 budget.

In the budget, as in other Soviet statistical presentations, the data are almost certainly not falsified, but they are subject to manipulation and omissions which may have a misleading effect. Thus the coverage of given budget categories may change from year to year, and entries may be added or eliminated without specific references to these changes in the budget presentation. Plan figures, but not actual results, are often announced for different revenues and expenditures. For various reasons, figures for a specific entry may be released one year but not the next. Finally, many important expenditures are financed from extra-budgetary sources. To assess the course of Soviet economic policy as manifested in the budget, it is necessary, therefore, to make a careful study both of the budget speech and of related information

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THE 1956 SOVIET BUDGET*

Summary and Conclusions

The 1956 Soviet budget is designed to execute current economic policies by restricting consumption, by promoting economic growth through the development of heavy industry, and by maintaining a high level of military capability, oriented increasingly toward modern weapons. Analysis of the 1956 budget is complicated, and comparisons with earlier years are rendered difficult, by price changes during 1955 and by the exclusion from the 1956 budget of "fictitious" entries which appeared in preceding budgets. Both revenues and expenditures are planned to increase 6 percent over the actual 1955 level, the surplus remaining unchanged.

The increase in revenues is to come from the turnover tax and the profits tax, the two principal revenues. Consumer purchasing power will be limited by the increase in turnover tax collections, maintenance of the spring mass loan at the high 1955 level (which was double the 1953-54 level), and omission again in 1956 of a general retail price cut, which was announced each spring from 1948 to 1954.

Half of the increase in expenditures over 1955 is attributable to increased appropriations for Social-Cultural Measures (Education, Health and Physical Culture, and Social Welfare). Although allocations for Financing the National Economy are to rise only slightly above the 1955 level, fixed investment is planned to increase 15 percent, Heavy Industry receiving 60 percent of total investment. Allocations to Agriculture remain at the high 1955 level despite the completion of part of the "new lands" program. There has been a substantial increase in the unspecified residual in Financing the National Economy which cannot be fully explained on the basis of available information.

Explicit defense expenditures for 1956, as announced in the 1956 budget speech in December 1955, are 8.6 percent less than planned 1955 expenditures. When allowance is made, however, for price changes, a claimed cut in 1955 of 640,000 men in the armed forces, and savings

* The estimates and conclusions contained in this report represent the best judgment of ORR as of 15 May 1956.

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from mass production of military end items, it appears that the smaller 1956 allocation could finance the same amount of military procurement as in 1955, or possibly more. If a further reduction in force of 1.2 million men, announced on 14 May 1956, is carried out as scheduled, actual 1956 defense expenditures should be substantially below planned expenditures.

I. Introduction.

Analysis of the 1956 Soviet budget is complicated by two factors which make comparison with earlier years difficult. The first of these is the disappearance of the fictitious Revenue and Expenditure entries which appeared in the budget in 1953-55. The second is the impact upon budget revenues and expenditures, both actual 1955 and planned 1956, of the Soviet wholesale price reduction of 1 July 1955. Because an understanding of these changes is a prerequisite to an appraisal of the 1956 Soviet budget, they are discussed briefly in this introductory section.

A. Fictitious Entries.

Two fictitious entries appeared in the Soviet budget in 1953-55 (see Tables 1 and 6*). One was an entry for Retail Price Reductions, which amounted to 43.2 billion rubles in 1953 and 15.7 billion rubles in 1954. The other was called Raising Agricultural Procurement Prices and amounted to 23.3 billion rubles in 1954 and 22.5 billion rubles in 1955. Both of these entries referred to turnover taxes foregone. Because the turnover tax is in essence the difference between the price received by the producer and the price received by the trading organization, less trade costs, when retail prices were reduced in 1953 and 1954 without a corresponding reduction in producer prices, the effect was to reduce turnover tax collections. Similarly, turnover tax receipts declined when state agricultural procurement prices were raised in 1953 without a corresponding increase in retail prices. Fictitious entries representing the loss in turnover tax from retail price reductions and/or increases in agricultural procurement prices appeared in both Revenues

* Pp. 5 and 21, respectively, below.

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and Expenditures in 1953-55. They totaled 43.2 billion rubles in 1953, 39.0 billion rubles in 1954, and 22.5 billion rubles in 1955 and had the effect of showing an impressive growth in the state budget and of emphasizing to the Soviet public the measures taken during the "new course" program to increase consumption and to stimulate agriculture.

Neither of these fictitious entries is listed in the 1956 budget. Although Raising Agricultural Procurement Prices was included in the planned 1955 budget, it appears that it was excluded from the budget fulfillment report for 1955. In the case of both Revenues and Expenditures, the difference between the planned and actual 1955 totals is equal to the net change in the major items plus about 22.5 billion rubles, the amount listed for Raising Agricultural Procurement Prices. Thus in contrasting the planned 1956 and the actual 1955 Soviet budgets with earlier budgets, only real revenues and expenditures should be considered. The apparent omission of fictitious entries largely explains why actual 1955 revenues and expenditures are below plan figures and why planned 1956 revenues and expenditures show such a small increase over planned 1955 revenues.

B. Price Changes.

The second factor which must be considered in analyzing the 1956 budget and also budget results for 1955 is the reduction in industrial wholesale prices which occurred in the USSR on 1 July 1955. The price cut affected fuel, ferrous and nonferrous metals, machinery and equipment, chemicals, construction materials, freight rates, and rates for electric and fuel energy. 1/* The magnitude of the price reduction is not known, but it appears from scattered evidence that it may range from 10 to 20 percent. 2/

Investments in 1956, the first year of the Sixth Five Year Plan (1956-60), are also expressed in terms different from investments in the preceding years. Investment planning prices during the Sixth Five Year Plan will be those introduced on 1 July 1955, whereas investments during the Fifth Five Year Plan (1951-55) were expressed in prices of 1 July 1950. The new investment planning prices are estimated to be about 16 percent below those of the Fifth Five Year Plan. 3/

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The mid-1955 price reduction affected both budget revenues and budget expenditures. On the revenue side, it contributed to both the increase in turnover taxes and the fall in profits taxes from the plan in 1955. On the expenditure side, allocations for Financing the National Economy expressed in the new prices are from 11 to 14 percent less than the same allocations expressed in prices prevailing before the 1 July 1955 reduction (see Table 8*). Other items of expenditures were not given in both sets of prices, and it is not possible, from the scattered price data available, to adjust all budget figures to constant rubles. Therefore, in comparing actual 1955 and planned 1956 revenues and expenditures with those in the planned 1955 and earlier budgets, it is important to make allowance for price differences. This consideration is especially significant in comparing important entries such as military expenditures, for which no figures adjusted for price changes are available. In the following analysis of budget revenues and expenditures, frequent reference is made to the impact of the price cut of 1 July 1955 upon individual revenues and expenditures.

II. Budget Revenues.

Total revenues in the Soviet budget are planned at 592.7 billion rubles in 1956, an increase of 31.2 billion rubles, 6 percent over actual 1955 revenues. Table 1** shows planned and actual revenues for 1952-55 and planned revenues for 1956. Although actual 1955 revenues of 561.5 billion rubles are lower than planned 1955 revenues of 590.2 billion rubles, the revenue plan was reported overfulfilled. According to the 1956 budget speech, 4/ actual revenues were 100.2 percent of plan. The difference of 28.7 billion rubles between planned and actual revenues appears to have been caused not only by the effects of the 1955 wholesale price cut but also by the apparent exclusion from actual revenue of the 22.5-billion-ruble entry for Raising Agricultural Procurement Prices. Actual receipts of the two main revenues, turnover tax and profits tax, are known. The actual turnover tax was 9.2 billion rubles above plan, whereas the profits tax was 16.4 billion rubles below plan. Taken together, these two sources, which account for almost two-thirds of all revenue, were 7.2 billion rubles less than planned. The difference between total underfulfillment (28.7 billion rubles) and that attributable to the two main revenues (7.2 billion rubles) is 21.5 billion rubles. It

* P. 28, below.

** Table 1 follows on p. 5.

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Table 1
Soviet Budget Revenues
1952-56

Category	Billion Current Rubles								
	1952		1953		1954		1955		1956
	Plan <u>a</u> / [*]	Actual <u>b</u> / _/	Plan <u>c</u> / _/	Actual <u>d</u> / _/	Plan <u>e</u> / _/	Actual <u>f</u> / _/	Plan <u>g</u> / _/	Actual <u>h</u> / _/	Plan <u>i</u> / _/
Turnover Tax	260.7	246.9	240.4	243.6	234.4	224.3	233.7	242.9	271.2
Profits Tax	62.0	58.5	80.6	70.3	92.8	83.4	117.6	101.2	107.3
Taxation on Population	47.4	47.4	46.1	46.1	45.7	46.4	48.4	N.A.	50.3
State Loans <u>j</u> / _/	42.6	(43.2) <u>k</u> / _/	(29.7)	(30.6)	(28.4)	(29.8)	(43.5)	(42.3)	(40.3)
Social Insurance Funds	21.4	21.9	(22.7)	23.2	24.7	25.3	26.5	N.A.	(28.3)
Machine Tractor Station Revenue	6.0	N.A.	N.A.	(8.8) <u>l</u> / _/	10.0	N.A.	N.A.	(14.0) <u>l</u> / _/	(15.0) <u>l</u> / _/
Taxes on Enterprises and Organizations	10.2	N.A.	(10.0)	N.A.	(10.0)	N.A.	10.0	N.A.	(10.0)
Collections and Miscellaneous Nontax Income	14.0	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Customs and Reparations	26.2	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Economies in Administration	0	0	6.5	N.A.	3.9	N.A.	6.1	N.A.	N.A.
Other Revenues	19.4	N.A.	(65.1)	N.A.	(83.6)	N.A.	(81.9)	N.A.	(70.3)
Total real revenues	<u>509.9</u>	<u>497.7</u>	<u>501.1</u>	<u>N.A.</u>	<u>533.5</u>	<u>N.A.</u>	<u>567.7</u>	<u>N.A.</u>	<u>592.7</u>
Retail Price Reductions	0	0	43.2	N.A.	15.7	N.A.	0	0	0
Raising Agricultural Procurement Prices	0	0	0	0	23.3	N.A.	22.5	N.A.	0
Total stated revenues	<u>509.9</u>	<u>497.7</u>	<u>544.3</u>	<u>539.8</u>	<u>572.5</u>	<u>558.6</u>	<u>590.2</u>	<u>561.5</u>	<u>592.7</u>
Budget surplus	33.0	37.5	13.8	25.1	9.7	4.7	26.7	23.7	23.1

* Footnotes For Table 1 follow on p. 6.

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Table 1

Soviet Budget Revenues
1952-56
(Continued)

-
- a. 5/
 - b. 6/
 - c. 7/
 - d. 8/
 - e. 9/
 - f. 10/
 - g. 11/
 - h. 12/
 - i. 13/

j. State Loans include loan purchases (1) by the population in the annual mass loan campaign, (2) by the population at savings banks during the year, (3) by savings banks investing their deposits, and (4) by the state commercial insurance organization investing part of its reserves. Figures for items (1) and (3) are given in budget messages and the Soviet press. The figure for item (2) is estimated at 1 billion rubles per year, from loan service schedules published in the Soviet press. 14/ The figure for item (4) is estimated at 2 billion rubles per year, on the basis of previous years. 15/

k. All figures in parentheses are estimates.

l. Machine Tractor Station (MTS) Revenue is estimated on the basis of MTS activity and the level of procurement prices at which MTS income-in-kind is valued.

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is highly unlikely that minor revenues, which are both easier to plan accurately and less influenced by price changes, could have fallen enough to absorb the difference. If they had, the revenue plan certainly would not have been met. Therefore, allowing a net variation of about 1 billion rubles between planned and actual receipts from other revenues, it appears that exclusion of the entry Raising Agricultural Procurement Prices is primarily responsible for the difference between planned and actual 1955 revenues.

No fictitious entries have been listed in budget revenues for 1956. The turnover tax remains the principal revenue, with its share of the total rising from 43 percent in 1955 (actual) to 46 percent in 1956. The planned share of the profits tax in total revenues in 1956 is 18 percent, the same as in actual 1955 revenues. As a result of the reduction in heavy industry profits, apparently caused by the wholesale price cut, profits taxes for 1956 are planned at 6 percent more than actual 1955 collections but 10 percent below the planned 1955 level. It is estimated that state-loan revenues are planned at a slightly lower level than in 1955, but this is explained by a more realistic budget estimate in 1956 than in 1955 of the increase in savings deposits, which are invested in the state loan. No important change has occurred in other revenues.

A. Turnover Tax.

The Soviet turnover tax is a tax levied primarily on consumer goods. It represents, essentially, the difference between the price received by the producer and the price received by the trading organization, with an allowance for processing and transport costs. It is the most important single source of budget revenue, accounting for 46 percent of total revenue in 1956, more than twice the share of the next most important revenue, the profits tax paid by state enterprises.

Changes in the level of turnover tax receipts result from changes in the volume of trade turnover subject to the tax and from changes in either retail or producer prices affecting the spread between them. Thus rising trade turnover expands tax collections, whereas a reduction in retail prices or an increase in producer prices reduces tax collections. Variations in the level of turnover tax receipts in Table 1* represent the net effect of these two forces. In 1953, turnover tax collections declined below the 1952 level despite a 21-percent increase in trade turnover above 1952 16/ because both a

* P. 5, above.

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reduction in retail prices and an increase in agricultural procurement prices occurred in 1953. Both of these price changes were made at the expense of the turnover tax. In 1954, trade turnover rose by 18 percent above the 1953 level, 17/ but a combination of retail price reductions and agricultural price increases again more than offset the effects of increased sales of consumer goods and pulled turnover taxes down to 8 percent below the 1953 level. In 1955, on the other hand, no further price changes were apparently considered in estimating turnover tax receipts, which were planned to increase to 233.7 billion rubles, only 4 percent. This planned increase corresponds to what was probably the planned increase in trade turnover because the actual increase in trade turnover of 5 percent in 1955 was reported as exceeding the plan. 18/

Actual turnover tax collections in 1955, however, were 242.9 billion rubles, more than 8 percent above the 1954 level. The difference between the 5-percent increase in trade turnover and the 8-percent increase in turnover tax collections can probably be attributed largely to the wholesale price reduction in 1955. Although the price cut affected primarily the costs and selling prices of heavy industry, some goods, such as consumer durables and construction materials, that were sold at retail prices and were subject to the turnover tax, were probably also affected. The prices received by producers would have been reduced by the price cut without a corresponding reduction in retail prices to the public. The increase in the margin between producer and retail prices resulting from the price cut would therefore have resulted in increased turnover tax payments to the budget.

In 1956 a further increase in turnover tax collections of 11.6 percent is planned. The trade plan for 1956 has not been announced, but it appears unlikely that all of the increase will come from the growth of trade turnover. It may be suggested that trade turnover in 1956 will increase between 5 percent, the increase achieved in 1955, 19/ and 8.4 percent, the compound average annual rate required to meet the Sixth Five Year Plan goal of a 50-percent increase by 1960 over the 1955 level. 20/ The remaining increase in turnover tax, not attributable to the growth of trade turnover, must come from price changes. Because the 1955 wholesale price reduction came at mid-year, it affected only half of the year's turnover tax collections. Therefore, some of the increase in turnover tax receipts in 1956 will merely reflect the application of the new, lower wholesale prices over a full 12-month period. In addition, however, some increases in retail prices or reductions in agricultural

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procurement prices may be planned during 1956, although no significant changes have been reported. 21/

B. Profits Tax.

The Soviet profits tax consists of deductions from the profits of state enterprises which are paid into the budget and also of the return to the budget by enterprises of surplus working capital. It excludes taxes on the income of collective farms and producer and consumer cooperatives, which are listed under Taxes on Enterprises and Organizations. The profits retained by state enterprises, approximately one-fourth of total profits, are devoted to increasing working capital, financing fixed investment, and various minor uses.

Table 2* shows the distribution of planned profits of state enterprises in 1954-56, as well as the sources of planned profits taxes. Actual profits in 1955 were 123.7 billion rubles, or 20 billion rubles below the 1955 plan. This difference is caused in part by the under-fulfillment of profit plans which occurred in various ministries 22/ but appears to be primarily attributable to the 1955 wholesale price cut, which apparently reduced the prices of the output of heavy industry more than the prices of its inputs, thus curtailing profits in heavy industry. Although actual profit data by sectors have not been released for 1955, the effect upon profits of the wholesale price reduction is indicated in Table 3,** in which 1955 figures are expressed in pre-July 1955 prices and 1956 figures in the new prices. Table 3 shows the planned profits of state enterprises, by sector. Profits are to increase in 1956 in all sectors except heavy industry, where profits are planned to be 18 percent below the 1955 planned figure.

Table 4*** shows the planned distribution of profits of state enterprises in 1956 by sector and use. Of total profits, 72 percent will be paid into the budget, 7 percent will be devoted to the expansion of working capital, and 11 percent will be used for capital investment. About 1.5 percent will be allocated to the Enterprise Fund (formerly called the Director's Fund), which, depending upon the industry, receives from 1 to 6 percent of planned profit and from 20 to 50 percent of above-plan profit. The resources of this fund are

* Table 2 follows on p. 10.

** Table 3 follows on p. 11.

*** Table 4 follows on p. 12.

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Table 2

Distribution of Profits and Sources of Profits Taxes
 of Soviet State Enterprises
 1954-56

Item	Billion Current Rubles				
	1954		1955		1956
	Plan <u>a/</u>	Actual <u>b/</u>	Plan <u>c/</u>	Actual <u>d/</u>	Plan <u>e/</u>
Distribution of profits					
Paid to budget	89.8	N.A.	112.3	N.A.	101.0
Retained	33.6	N.A.	31.0	N.A.	38.5
Total profits	<u>123.4</u>	<u>123.2</u>	<u>143.3</u>	<u>123.7</u>	<u>139.5</u>
Sources of profits taxes					
Payments from profits	89.8	N.A.	112.3	N.A.	101.0
Return of surplus working capital	3.0	N.A.	5.3	N.A.	6.3
Total profits taxes	<u>92.8</u>	<u>83.4</u>	<u>117.6</u>	<u>101.2</u>	<u>107.3</u>

- a. 23/
- b. 24/
- c. 25/
- d. 26/
- e. 27/

spent for the introduction of new technology, modernization of existing equipment, expansion and repair of housing, construction and maintenance of cultural and social facilities, provision of passes to sanatoriums and rest homes, and payment of individual bonuses. 28/ The remaining 8 per cent of profits is to be devoted to a variety of activities, including the financing of geological survey work and scientific research and expenditures for housing and municipal services.

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Table 3

Planned Profits of Soviet State Enterprises, by Sector
1955 and 1956

Sector	Billion Current Rubles	
	1955 ^{a/}	1956 ^{b/}
Industry		
Heavy	53.4	43.6
Light	35.3	36.3
Subtotal	<u>88.7</u>	<u>79.9</u>
Agriculture and procurement	8.3	9.0
Domestic trade	10.9	12.1
Transport and communications	25.2	28.4
Other	10.2	10.1
Total	<u>143.3</u>	<u>139.5</u>
a. <u>29/</u>		
b. <u>30/</u>		

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Table 4

Planned Distribution of Profits of Soviet State Enterprises a/
1956

Billion Current Rubles

<u>Sector</u>	<u>Payments to Budget</u>	<u>Expansion of Working Capital</u>	<u>Fixed Investment</u> <u>b/</u>	<u>Enterprise Fund</u>	<u>Other Uses</u> <u>c/</u>	<u>Total Profits</u>
Industry						
Heavy	22.6	5.8	10.0	1.0	4.2	43.6
Light	28.8	2.9	1.9	0.4	2.3	36.3
Subtotal	<u>51.4</u>	<u>8.7</u>	<u>11.9</u>	<u>1.4</u>	<u>6.5</u>	<u>79.9</u>
Agriculture and procurement	5.2	0.6	0.8	0.1	2.3	9.0
Domestic trade	11.2	0.3	0.3	0.1	0.2	12.1
Transport and communications	24.2	0.5	2.5	0.4	0.8	28.4
Other	9.0	0.1	0.5	Negligible <u>d/</u>	0.5	10.1
Total	<u>101.0</u>	<u>10.2</u>	<u>16.0</u>	<u>2.0</u>	<u>10.3</u>	<u>139.5</u>

a. 31/

b. Including investment in local industry outside the state plan of capital investments.

c. Including financing of geological survey and scientific research work and expenditures for housing and municipal services.

d. Less than 50 million rubles.

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Table 4 also reveals the wide variation in the percentage of profits which is retained in the different sectors of the economy. In 1956, heavy industry will pay into the budget 52 percent of its profits and retain 48 percent. Trade, on the other hand, will retain less than 8 percent of its profits, light industry will keep 21 percent, and transport and communications will keep 15 percent. These percentages illustrate how Soviet price policy permits profits to form in one sector of the economy and fiscal policy then draws them into the budget to redistribute them to other sectors. In 1956, for example, light industry will pay profits taxes of 28.8 billion rubles into the budget and receive only 9.1 billion rubles* in budget allocations whereas heavy industry will pay 22.6 billion rubles in profits taxes and receive 100.9 billion rubles in budget allocations.* In effect, however, high profits taxes for light industry are only an alternative to higher turnover taxes on the products of light industry, as both levies tap essentially the same source of revenue -- that is, the proceeds from the sale of the output of light industry.

Primarily because of the 1955 wholesale price cut, the share of heavy industry in total profits will fall from 37 percent in the 1955 plan to 31 percent in the 1956 plan (see Table 3**). The share of its profits which is retained by heavy industry, however, will rise from 30 percent in 1955 to 48 percent in 1956, increasing its retained profits from 16 billion rubles in 1955 to 21 billion rubles in 1956. The other sectors of the economy will be permitted to retain approximately the same amount of profits in 1956 as in 1955. 32/

In 1955 the level of profits tax collections was raised by a change in the administrative level at which profits taxes are remitted to the budget. The customary procedure in Soviet ministries has been for profits to be balanced against losses within a chief directorate, which then remits net profits to the budget. Because this authority was often used by chief directorates to make unplanned transfers of the profits of efficient enterprises to replenish the working capital of inefficient enterprises, however, it was decided in 1955 to begin the remittance of profits directly by the enterprise into the budget. 33/ On 1 July 1955 this procedure was initiated in the Ministries of the Automobile Industry, Tractor and Agricultural Machine Building, and Chemical Industry. In 1956, it was extended to the Ministries of

* See Table 6, p. 21, below.

** P. 11, above.

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Machine and Instrument Building, Paper and Wood Processing Industry, Textile Industry, and Construction of Petroleum Industry Enterprises. 34/ Furthermore, the ministries of finance of the union republics were authorized to apply this system to republican industry. 35/ One effect of this change will be to increase the amount of profits remitted by these ministries, all of which are in heavy industry. With this source of funds removed from the control of chief directorates, however, the needs of enterprises in financial difficulty will have to be met directly from the budget or from bank credit. The new profits tax procedure thus will tighten centralized control over the financial condition and operations of enterprises in the ministries affected. 36/

C. Taxation on Population and State Loans.

1. Taxation on Population.

Direct taxation of the population consists primarily of the income tax on the agricultural and nonagricultural population. In 1956 these taxes show a normal increase reflecting the growth in the labor force and in taxable incomes. In 1953 and 1954, population taxes fell because of a reduction in agricultural taxes, 37/ but by 1955, population taxes had returned to the 1952 level, and they are planned at 50 billion rubles in 1956.

2. State Loans.

The revenue from state loans in 1956 is estimated to be planned at approximately 40 billion rubles. This revenue includes the proceeds of the annual spring mass loan drive, additional purchases of bonds by the population at savings banks during the year, investment in state debt of the deposits of the savings banks, and investment of the free reserves of the state insurance organization.

The spring loan was announced in the 1956 budget speech at 32.2 billion rubles, slightly above the 1955 goal of 30.5 billion rubles, which was expected to elicit an average subscription of 4 weeks' wages per worker. 38/ The 1955 loan was oversubscribed by about 4 billion rubles, 39/ and it is likely that the 1956 goal will be oversubscribed by a similar amount. The other major source of state loans revenue is the increase in the deposits of the savings banks, which is planned for 1956 at 5 billion rubles, the same amount as the actual increase in 1955. 40/ An increase of 10 billion rubles

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was planned in 1955, 41/ but this plan apparently did not take cognizance of the smaller amount of funds left for voluntary saving after the spring mass loan was increased in 1955. Savings deposits grew by over 10 billion rubles in 1953 and 1954, when the spring mass loan was only 16 billion rubles, but they rose by only 5 billion rubles in 1955, when the mass loan was increased to 30.5 billion rubles. The estimate in the 1956 budget of a 5-billion-ruble increase in savings deposits is thus a more accurate estimate of the increase to be expected when the spring mass loan is set at over 30 billion rubles. In addition to the two major sources of state loans revenue, bond purchases by the population at savings banks and by the state insurance organization are estimated at approximately 3 billion rubles, bringing total planned state loans revenue to 40 billion rubles. Expected overfulfillment of the spring mass loan should raise the total to several billion rubles more than the estimated actual 1955 loan revenues of 42 billion rubles.

D. Secondary Sources of Revenue.

Secondary sources of revenue include the budget categories Social Insurance Funds, Machine Tractor Station (MTS) Revenue, Taxes on Enterprises and Organizations (such as collective farms and producer and consumer cooperatives), Customs and Reparations, savings from Economies in Administration, and Collections and Miscellaneous Nontax Revenue. Complete information on the size of these revenues is not available after 1952, and only a few entries can be accurately estimated. As a group, however, these revenues probably will provide to the budget in 1956 approximately the same amount of funds as in 1955.

1. Social Insurance Funds.

Social insurance funds represent compulsory social insurance payments by enterprises to the budget of from 4.1 to 9.0 percent of their wage bill, depending on the industry. 42/ 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 Revenue.

Inasmuch as the Machine Tractor Stations (MTS's) are on a gross budgetary basis, all their revenue is paid into the budget and all their expenditures are paid from the budget. MTS income consists of

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payments-in-kind by collective farms for MTS services. These crops and animal products are valued at compulsory procurement prices. Because the physical receipts of the MTS are valued at such low prices, MTS revenue fails to cover even operating costs. In 1956, for example, MTS revenue is estimated at 15 billion rubles, compared with total planned expenditures of 32.7 billion rubles, of which about 23 billion rubles may correspond to operating costs (see Table 9*). If MTS income-in-kind were valued at the higher "purchase" prices paid for above-quota sales, however, MTS revenues would be more than sufficient to cover operating expenditures. There has been extensive discussion in Soviet journals ^{43/} about converting the MTS's from gross budgetary institutions to khozaschet** institutions whose revenues would cover their costs. In his speech to the XXth Party Congress, Khrushchev criticized the absence of khozaschet in the MTS's and declared that "it would be expedient for the MTS's to switch over gradually, in the next few years, to khozaschet." ^{44/} A new and more favorable basis of valuation of the income-in-kind received by the MTS's will be necessary, however, before they can become self-supporting, profit-making enterprises.

3. Customs and Reparations.

Information on the magnitude of Customs and Reparations revenue is available only until 1952, and it is not possible to estimate this entry for more recent years. Reparations from Rumania, Hungary, and Finland ended in 1952, and those from East Germany in 1953. In 1954, however, a number of Soviet joint stock companies in Rumania, Bulgaria, and Communist China were dissolved, with the terms of sale calling for payment to the USSR in goods over a number of years. Under the 1955 Austrian peace treaty, Austria agreed to pay the USSR \$US 25 million worth of goods per year for 6 years for the return of Soviet-controlled properties in Austria and, in addition, to deliver 1 million metric tons of oil annually for 10 years. ^{45/} Proceeds from the sale of these goods inside the USSR may be treated in the budget like Reparations revenue. Furthermore, on goods imported through normal foreign trade purchases the difference between foreign prices converted at four rubles to the

* P. 31, below.

** In contrast to a budgetary institution, which draws all its expenditures from the budget and returns all its receipts to the budget, an enterprise operating on khozyaystvennyy raschet (economic accountability), or khozaschet, uses its receipts to pay its expenses. Ordinarily these receipts are adequate to cover expenses and show a profit.

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dollar and Soviet internal prices, with an allowance for a trading margin, is paid into the budget as Customs revenue. 46/ As the volume of foreign trade rises, budget revenue from this source probably will also rise. On the basis of these developments it appears that budget income from customs and reparations may have been increasing in recent years.

4. Economies in Administration.

Savings in administrative costs of economic ministries are entered as budget revenue when these ministries return to the budget a portion of their allocations corresponding to planned reductions in administrative overhead expenses. 47/ These revenues, which thus offset to a small extent budget allocations to the various ministries, were planned at 6.5 billion rubles in 1953, 3.9 billion rubles in 1954, and 6.1 billion rubles in 1955. No reference to this entry was made in the 1956 budget.

5. Other Revenues.

The remaining budget revenues include Taxes on Enterprises and Organizations, which are estimated at 10 billion rubles in 1956 on the basis of past years, and Collections and Miscellaneous Nontax Revenue. The latter group comprises a variety of items, such as receipts from fines, sale of state property, and payments for passports.

E. Summary of Revenues.

Total revenues continue to increase in the 1956 budget, showing the same rate of increase over actual 1955 revenues (6 percent) as planned real revenues in 1955 did over planned real revenues in 1954. The increase in revenues will be achieved primarily through the expansion of revenues of the two principal budget categories, Turnover Tax and Profits Tax. The former, benefiting from increased trade turnover and price changes, is planned to increase 11.6 percent over 1955 (actual) whereas the latter, adversely affected by the mid-1955 wholesale price cut, is set below the planned 1955 level and only 6 percent above the actual 1955 level. State loans revenue is estimated at about the 1955 level because its main component, the spring mass loan drive, will continue at over 30 billion rubles, the same as 1955 but double the lower subscription goal set during the "new course" years of 1953 and 1954. Of the remaining revenues, it is suggested that customs duties may be rising as Soviet foreign trade increases and payments in goods are made by Austria and Satellite countries for properties returned by the USSR.

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F. Budget Surplus.

A consistent feature of Soviet revenue policy is the achievement of a budget surplus, as Tables 1* and 5** show. Table 5 shows Soviet budget revenues, expenditures, and surplus for 1954-56. The 1956 surplus is planned at virtually the same level as that achieved in 1955. The 1955 surplus was below the planned surplus because revenue overfulfillment was less than expenditure overfulfillment. Revenues of 561.5 billion rubles were reported as 100.2 percent of plan and expenditures of 537.8 billion rubles as 100.9 percent of plan. From these percentages, revised 1955 plan figures for revenue, expenditures, and surplus may be calculated. These revised figures, as shown in Table 5, reflect the effects of the wholesale price cut and also the apparent elimination of the fictitious entry Raising Agricultural Procurement Prices.*** In 1956, revenues and expenditures are both planned to increase by slightly more than 31 billion rubles, providing approximately the same surplus as in 1955.

The Soviet budget surplus differs conceptually from the surplus of the budgets of Western countries because Soviet budget revenue includes loan revenue. In Western budgeting the increase in government debt is not treated as revenue but rather is considered as the source from which an excess of expenditures over revenues is met. By Western budgetary criteria, the Soviet budget would show a deficit, since exclusion of loan revenue would make Soviet budget revenues smaller than expenditures. A rationale for treating loan revenue as ordinary revenue in the Soviet budget, however, exists in the essentially involuntary nature of Soviet loan revenue, which makes it comparable either to direct taxes or to the revenue of gross budgetary institutions. Virtually all bond purchases by the population are made during the annual mass loan drive, when great pressure is exerted on every wage-earner to subscribe an amount equal to a specified proportion of his wages. This involuntary savings flows into the budget, and although the bondholder is promised eventual redemption and even a chance for a prize in excess of the value of his bond, it is not likely that these sums would be saved voluntarily. Thus most bond purchases by the population constitute a form of compulsory saving. As such, they are a dependable source of revenue whose amount can be fairly accurately planned. Purchases of state loans by savings banks and the state insurance organization absorb

* P. 5, above.

** Table 5 follows on p. 19.

*** P. 2, above.

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Table 5

Soviet Budget Revenues, Expenditures, and Surplus a/
1954-56

Billions Current Rubles

	1954 <u>Plan</u>	1954 <u>Actual</u>	<u>1955 Plan</u>		1955 <u>Actual</u>	1956 <u>Plan</u>
			<u>Original</u>	<u>Revised</u> <u>b/</u>		
Revenues	572.5	558.6	590.2	560.3	561.5	592.7
Expenditures	562.8	553.9	563.5	533.0	537.8	569.6
Surplus	9.7	4.7	26.7	27.3	23.7	23.1

a. Figures are from Tables 1 and 6, pp. 5 and 21, respectively, above and below, except for revised 1955 plan.

b. Computed from percentages of overfulfillment. Revenues of 561.5 billion rubles were 100.2 percent of plan and expenditures of 537.8 billion rubles were 100.9 percent of plan. 48/

the free reserves of these organizations and also represent a steady source of revenue. It thus appears practical in the Soviet setting to treat bond sales to the population and to financial institutions as ordinary revenue.

The surplus created by the excess of revenue over expenditures constitutes a fiscal offset to monetary expansion by the banking system. According to Finance Minister Zverev, 49/ "the excess of revenues over expenditures ... represents a supplementary source of expanding credit in the national economy and serves as an important factor in the further strengthening of the Soviet currency."



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If the budget did not create an additional source of credit resources of the State Bank, then additional currency issue would be needed, which could exceed the requirements of circulation and might lead to harmful effects in monetary circulation, which in turn might

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intensify difficulties arising in the economy, caused by disruptions in production and the distribution of the social product.

Only a part of the budget surplus, however, is devoted to bank credit. During the Fifth Five Year Plan, short- and long-term credit increased by 47 billion rubles, 51/ whereas budget surpluses totaled 118 billion rubles. Thus only a small part of the budget surplus has on the average served to offset bank credit. Soviet discussions of monetary policy do not reveal the disposition of the remainder of the surplus, but it is possible that it is merely withdrawn from the money supply in order to "strengthen the currency" by reducing the means of payment and thereby reducing the pressure on prices.

III. Budget Expenditures.

Total expenditures in the budget of 1956 are planned at 569.6 billion rubles, or 6 percent more than actual 1955 expenditures, with which the coverage of 1956 expenditures is most comparable. Table 6* shows planned expenditures for 1956 and planned and actual expenditures for 1952-55. Although actual 1955 expenditures of 537.8 billion rubles were almost 26 billion rubles below the planned figure announced in the 1955 budget, actual 1955 expenditures were reported as 100.9 percent of plan, or slightly overfulfilled. Close analysis of actual expenditures in 1955, however, suggests that there are two important differences in coverage between the planned and actual figures.

First, it appears that the fictitious entry Raising Agricultural Procurement Prices has been eliminated from actual 1955 expenditures in the same manner as in the report of actual 1955 revenues.** This entry was not listed in the 1956 budget, and comparison of total expenditures and the individual expenditure categories indicates that it was also eliminated from actual 1955 expenditures. The difference between planned 1955 expenditures (563.5 billion rubles) and actual expenditures (537.8 billion rubles) is 25.7 billion rubles. Budget expenditures for Financing the National Economy, however, were reported at 7.7 billion rubles more than the plan figure. The other reported results, for Social-Cultural Measures, Administration, and Loan Service expenditures, are virtually identical with the plan figures.***

* Table 6 follows on p. 21.

** See II, above.

*** Continued on p. 24.

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Table 6
Soviet Budget Expenditures
1952-56

Billion Current Rubles

Category	1952		1953		1954		1955		1956
	Plan ^{a/} *	Actual ^{b/}	Plan ^{c/}	Actual ^{d/}	Plan ^{e/}	Actual ^{f/}	Plan ^{g/}	Actual ^{h/}	Plan ^{i/}
Financing the National Economy	<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>	<u>230.1</u>	<u>237.3</u>
Industry	80.6	N.A.	82.6	N.A.	92.3	N.A.	111.8	N.A.	110.0
Heavy	N.A.	N.A.	N.A.	N.A.	79.7	N.A.	101.2	90.0	100.9
Light	N.A.	N.A.	N.A.	N.A.	12.6	N.A.	10.6	N.A.	9.1
Agriculture	34.7	33.5	(40.4) ^{j/} ^{k/}	N.A.	(51.5) ^{l/}	N.A.	55.1	N.A.	48.6
Procurement	(12.3) ^{m/}	N.A.	(9.0) ^{k/}	N.A.	(11.0) ^{l/}	N.A.	(11.5)	N.A.	N.A.
Trade	(1.0) ^{m/}	N.A.	(1.0)	N.A.	1.6	N.A.	0.8	N.A.	0.6
Transport and Communications	14.3	N.A.	17.4	N.A.	21.5	N.A.	23.0	N.A.	21.8
Municipal Economy ^{n/}	(5.0)	N.A.	(6.5)	N.A.	(7.5)	N.A.	(8.0)	N.A.	(10.5)
Other Expenditures	(32.5)	N.A.	(35.6)	N.A.	(31.0)	N.A.	(12.2)	N.A.	(45.8)
Social-Cultural Measures	<u>124.8</u>	<u>122.8</u>	<u>129.8</u>	<u>128.8</u>	<u>141.4</u>	<u>141.8</u>	<u>146.9</u>	<u>146.7</u>	<u>161.5</u>
Education	60.0	58.5	62.1	61.1	67.2	66.2	68.4	68.3	72.8
Health and Physical Culture	22.8	22.3	24.8	24.2	29.3	28.9	30.5	30.3	35.1
Social Welfare	42.0	42.0	42.9	43.5	44.9	46.7	48.0	48.1	53.6
Administration	14.4	N.A.	14.3	14.3	13.9	13.9	12.6	12.5	12.5
Defense	113.8	108.6	110.2	105.0	100.3	N.A.	112.1	N.A.	102.5
Internal Security	(22.8) ^{o/}	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Loan Service ^{p/}	7.0	6.8	9.8	N.A.	10.5	10.2	12.2	12.2	14.0
Reserve Funds, Councils of Ministers	6.1	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

* Footnotes for Table 6 follow on p. 22.

Table 6
Soviet Budget Expenditures
1952-56
(Continued)

Category	Billion Current Rubles									
	1952		1953		1954		1955		1956	
	Plan ^{a/}	Actual ^{b/}	Plan ^{c/}	Actual ^{d/}	Plan ^{e/}	Actual ^{f/}	Plan ^{g/}	Actual ^{h/}	Plan ^{i/}	
Allocations to Special Banks	1.4	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Other Expenditures	(6.2)	N.A.	30.7	N.A.	41.3	N.A.	34.8	N.A.	41.8	
Total real expenditures	<u>476.9</u>	<u>460.2</u>	<u>487.3</u>	<u>N.A.</u>	<u>523.8</u>	<u>N.A.</u>	<u>541.0</u>	<u>N.A.</u>	<u>569.6</u>	
Retail Price Reductions	0	0	43.2	N.A.	15.7	N.A.	0	0	0	
Raising Agricultural Procurement Prices	0	0	0	0	23.3	N.A.	22.5	N.A.	0	
Total stated expenditures	<u>476.9</u>	<u>460.2</u>	<u>530.5</u>	<u>514.7</u>	<u>562.8</u>	<u>553.9</u>	<u>563.5</u>	<u>537.8</u>	<u>569.6</u>	

- a. 52/
- b. 53/
- c. 54/
- d. 55/
- e. 56/
- f. 57/
- g. 58/
- h. 59/
- i. 60/

j. All figures in parentheses are estimates.

k. 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 billion rubles represented a reduction in agricultural income tax. Total allocations were thus 39.9 + 13.6 - 4.1, or 49.4 billion rubles, of which 9 billion rubles is estimated for Procurement and 40.4 billion rubles for Agriculture.

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Table 6

Soviet Budget Expenditures
1952-56
(Continued)

-
- l. In 1954, allocations to Agriculture and Procurement were 62.5 billion rubles, of which it is estimated that 11.0 billion rubles was allocated to Procurement and 51.5 billion rubles to Agriculture.
- m. In 1952, the combined allocation to Trade and Procurement was 13.3 billion rubles. The allocation to Trade is estimated at 1 billion rubles, leaving 12.3 billion rubles for Procurement.
- n. Municipal Economy estimates are based on republic budget expenditures. 61/
- o. In 1952, total allocations for Administration and Internal Security from the union and republic budgets were 31.4 billion rubles. Allocations from these budgets for Administration are estimated at 60 percent of total allocations to Administration of 14.3 billion rubles, or 8.6 billion rubles, on the basis of 1951 data. 62/ Allocations for Internal Security are thus estimated at 31.4 billion rubles less 8.6, or 22.8 billion rubles.
- p. Loan Service payments to the population only. Loan Service payments to organizations, primarily savings banks, were planned at 1.9 billion rubles in the 1952 budget, the last time total Loan Service was announced. 63/

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Although the Defense allocation was probably reduced as a result of the 1955 wholesale price cut, it is not likely that it and other expenditures declined by so much as 32 billion rubles; if so, it would be difficult to report overfulfillment of planned expenditures. If, however, the decline in Defense and Other Expenditures amounted to 10 or 11 billion rubles, because of savings from the price cut and possible underexpenditure of such allocations as the Reserve Fund of the Council of Ministers, the remainder could be explained by the exclusion from actual 1955 expenditures of the 22.5-billion-ruble entry in planned expenditures for Raising Agricultural Procurement Prices.

The second change which may be suggested is an increase in planned allocations for Financing the National Economy above the level planned in the original 1955 budget. A revised set of figures for planned allocations for this category, supposedly showing the adjustment for the 1955 wholesale price cut, has been released.* These data, however, show a sharp increase in unspecified allocations to Financing the National Economy, whereas all the allocations to specified sectors decline, as would be expected following a price reduction. The only explanation is that additional expenditures, not in the 1955 budget speech, have been included in the revised figures, which were presented for comparison with the 1956 budget. It does not appear likely that the increase in planned allocations for Financing the National Economy represents merely a transfer of expenditures from other categories, because other real budget expenditures did not decline by that amount. Instead, it appears that additional expenditures were authorized during 1955, following the publication of the original budget. Their impact upon actual 1955 expenditures, however, was concealed by the exclusion from actual expenditures of the fictitious entry which had appeared in planned expenditures. Thus actual 1955 expenditures, by excluding fictitious expenditures, financed a higher level of activity than planned 1955 expenditures. Because their coverage and prices appear to be the same, total expenditures in 1956 can more accurately be compared with actual 1955 expenditures than with the expenditures of earlier years.

In 1956, allocations for Financing the National Economy account for over 40 percent of total budget expenditures and include funds for fixed investment, expansion of working capital, capital repairs, and various operational outlays. The budget category Social-Cultural Measures, comprising expenditures for Education, Health, and Social Welfare, is the

* P. 25, below.

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next most important group, absorbing 28 percent of total expenditures. Military expenditures account for 18 percent of the total, somewhat less than their share of the 1955 planned budget. It is suggested, however, that because of the 1955 price reduction and a claimed cut in troop strength, military procurement may actually be at a higher level in 1956 than 1955. Other expenditures, including expenditures for Internal Security, Loan Service, Administration, and the Reserve Funds of the Councils of Ministers, represent 12 percent of total expenditures, about the same share as in 1955.

A. Financing the National Economy.

Unlike military and social-cultural activities, which are wholly dependent on budget allocations for their financing, activities in Financing the National Economy obtain only a part of their funds from the state budget. The remainder comes from organizational funds (such as retained profits and amortization allowances) and from bank credit. The importance of nonbudgetary funds is indicated in Table 7,* which shows the sources of planned allocations for the category Financing the National Economy, for fixed investment, and for expansion of working capital. Approximately one-third of the funds allocated to Financing the National Economy comes from organizational funds. An analysis of allocations to this category must therefore embrace not only budget funds but also financing from other sources. In the following discussion, allocations from both budgetary and nonbudgetary sources are considered. First, the distribution of funds by sectors of the economy (industry, agriculture, trade, transport and communications, and others) is examined. Then the distribution of funds by end use (fixed investment, expansion of working capital, and others) is analyzed.

1. Allocations by Sector.

The sectoral distribution of allocations to Financing the National Economy from the budget alone is shown for 1952-56 in Table 6.** A more comprehensive and also more detailed view of allocations is provided for 1954-56 in Table 8,*** which shows the distribution of funds by sector and source under Financing the National Economy. Data for 1955 are shown both as presented in the original budget speech on 3 February 1955 and in the revised form presented in a 1956 journal****

* Table 7 follows on p. 26.

** P. 21, above.

*** Table 8 follows on p. 28.

**** Continued on p. 29.

Table 7
Sources of Soviet Planned Allocations for Financing the National Economy,
Fixed Investment, and Expansion of Working Capital
1952-56

	Billion Rubles				
	<u>1952</u> ^{a/*}	<u>1953</u> ^{b/}	<u>1954</u> ^{c/}	<u>1955</u> ^{d/}	<u>1956</u> ^{e/}
Financing the National Economy					
Budget ^{f/}	180.4	192.5	216.4	222.4	237.3
Organizational funds ^{g/}	(86.7) ^{h/}	98.0	110.3	112.8	109.7
Total	<u>(267.1)</u>	<u>290.5</u>	<u>326.7</u>	<u>335.2</u>	<u>347.0</u>
Fixed investment					
Budget ^{f/}	98.1	106.7	116.3	109.3	118.4
Organizational funds ^{g/}	45.0	49.4	52.7	57.9	42.4
Total ^{i/}	<u>143.1</u>	<u>156.1</u>	<u>169.0</u>	<u>167.2</u>	<u>160.8</u>
Expansion of working capital ^{f/}					
Budget	4.6	4.3	4.8	5.5	3.8
Organizational funds	6.1	10.8	11.1	6.5	7.9
Total	<u>10.7</u>	<u>15.1</u>	<u>15.9</u>	<u>12.0</u>	<u>11.7</u>

* Footnotes for Table 7 follow on p. 27.

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Table 7

Sources of Soviet Planned Allocations for Financing the National Economy
Fixed Investment, and Expansion of Working Capital
1952-56
(Continued)

-
- a. 64/
 - b. 65/
 - c. 66/
 - d. 67/
 - e. 68/
 - f. Current rubles.
 - g. Organizational funds include both allocations from current funds in current rubles and an allowance for reductions in the cost of investment below the investment planning prices of the base date for the five year plan period, resulting from price reductions and increased efficiency in construction.
 - h. Figures in parentheses are estimates.
 - i. Total fixed investment figures are expressed in investment planning prices. Figures for 1952-55 are in investment planning prices of 1 July 1950, while figures for 1956 are in investment planning prices of 1 July 1955.

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Table 8

Financing the National Economy of the USSR: Distribution of Funds by Sector and Source ^{a/}
1954-56

Sector	Billion Rubles ^{b/}											
	1954 ^{c/}			Original 1955 ^{d/}			Revised 1955 ^{e/}			1956 ^{f/}		
	State Budget	Organizational Funds	Total	State Budget	Organizational Funds	Total	State Budget	Organizational Funds	Total	State Budget	Organizational Funds	Total
Industry												
Heavy	79.7	53.5	133.2	101.2	62.4	163.6	(90.0) ^{g/}	(60.5)	(150.5)	100.9	57.8	158.7
Light	12.6	18.4	31.0	10.6	15.5	26.1	(9.0)	(15.0)	(24.0)	9.1	17.3	26.4
Subtotal	<u>92.3</u>	<u>71.9</u>	<u>164.2</u>	<u>111.8</u>	<u>77.9</u>	<u>189.7</u>	<u>99.0</u>	<u>75.5</u>	<u>174.5</u>	<u>110.0</u>	<u>75.1</u>	<u>185.1</u>
Agriculture	(51.5)	(10.4)	(61.9)	55.1	10.1	65.2	48.1	10.1	58.2	48.6	8.0	56.6
Trade	1.6	4.0	5.6	0.8	1.0	1.8	0.8	1.0	1.8	0.6	1.1	1.7
Transport and communications	21.5	17.3	38.8	23.0	17.5	40.5	19.8	17.5	37.3	21.8	18.8	40.6
Other	(49.5)	(6.7)	(56.2)	31.7	6.3	38.0	49.7	8.8	58.5	56.3	6.7	63.0
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>	<u>217.4</u>	<u>112.9</u>	<u>330.3</u>	<u>237.3</u>	<u>109.7</u>	<u>347.0</u>

a. Plan figures.

b. Budget funds are in current rubles. Organizational funds include both allocations from current funds in current rubles and an allowance for reductions in the cost of investment below the investment planning prices of the base date for the five year plan period, resulting from price reductions and increased efficiency in construction.

c. ^{69/}d. Announced in the 1955 budget speech on 3 February 1955. ^{70/}e. Plan figures for 1955 as revised to allow for the 1 July 1955 price reduction. Although these figures are labeled "in new prices" a journal article by Finance Minister Zverev ^{71/}, the organizational figures for agriculture, transport, and trade are identical with the original plan figures and thus appear not to have been adjusted.f. ^{72/}

g. Figures in parentheses are estimates.

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article by Finance Minister Zverev for comparison with planned 1956 allocations. The dual presentation of planned 1955 allocations in Table 8 reveals the effects of the 1955 wholesale price cut upon specific allocations and also indicates the inclusion in the revised figures for 1955 of some expenditures which were not in the original plan. Furthermore, 1955 figures adjusted for price changes are necessary for comparison with planned 1956 allocations.

Total allocations in 1956 are planned at 347 billion rubles, or 5 percent more than the revised planned allocations in 1955. Of the total the major share goes, as in the past, to Heavy Industry, which receives 46 percent of total allocations. Of the specified sectors, Agriculture comes next with 16 percent, followed by Transport and Communications with 12 percent. There has been a large increase compared with the original 1955 plan in the size of the unspecified residual, which exceeds 18 percent of total allocations in 1956. As Table 8* shows, however, most of this increase actually occurred in 1955, as Zverev's revised 1955 figures show a sharp increase in budget allocations for unspecified activities in Financing the National Economy. Unspecified Other allocations in the 1956 budget are 13 percent greater than those in the revised 1955 budget data.

a. Heavy Industry.

In 1956, total planned allocations to Heavy Industry are 158.7 billion rubles, an increase of 5 percent over the estimated revised 1955 allocation. Less reliance will be placed on internal financing, however, as budget allocations are estimated to increase by almost 11 billion rubles, whereas organizational allocations will fall by about 3 billion rubles.

As Table 8 indicates, there have been marked changes in the level of allocations to Heavy Industry in recent years, primarily as a result of changes in the amount of budgetary allocations. The growth of Heavy Industry allocations in the original 1955 budget, compared with the 1954 budget, appears to have taken place at the expense of a reduction in unspecified Other allocations. In the analysis of the 1955 budget, 73/ it was suggested that a transfer of atomic energy allocations, which it was speculated had been in the unspecified Other group, might have been responsible. No evidence

* P. 28, above.

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has subsequently appeared, however, to confirm this supposition or to provide an alternative hypothesis. Figures for the budget allocation to Heavy Industry presented in the revised plan for 1955 and in the 1956 budget do not suggest any further change in the scope of this allocation after the publication of the 1955 budget in February 1955.

The decline in budget allocations to Heavy Industry from 101.2 billion rubles in the February 1955 budget to an estimated 90.0 billion rubles in the revised 1955 figures can be attributed to the 1955 wholesale price cut, whose impact upon Heavy Industry allocations was apparently less than upon the allocations to Agriculture and Transport and Communications. Comparison of the original and revised 1955 budget allocations in Table 8* reveals that allocations to Heavy Industry declined an estimated 11.1 percent whereas those to Agriculture and Transport and Communications decreased 12.7 and 13.9 percent, respectively. This differential impact of the price cut suggests that prices of the output of heavy industry, purchased by the other two sectors, were reduced more than prices of the inputs of heavy industry. In 1956, budget allocations to Heavy Industry are estimated to increase 12 percent over planned 1955 allocations expressed in the same prices. This increase is only slightly larger than the increase in budget allocations to Transport and Communications and in part reflects the estimated reduction in allocations from organizational funds.

b. Light Industry.

Total allocations to Light Industry in 1956 are planned at 26 billion rubles, an increase of 10 percent over the estimated 1955 allocation in comparable prices. Most of the increase is to come from organizational funds rather than budget allocations. As in 1955, allocations to Light Industry in 1956 are well below the peak achieved in 1954 under the "new course" program. It is likely, however, that allocations to Light Industry will increase in the next few years as agricultural production, upon which light industry depends for most of its raw materials, expands.

c. Agriculture.

Allocations to Agriculture in 1956 are planned at 56.6 billion rubles, of which 85 percent is to come from the budget and 15 percent from organizational funds. Budgetary allocations are

* P. 28, above.

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virtually the same as those planned, in comparable prices, for 1955, although their distribution has changed, probably reflecting the completion of the settlement phase of the "new lands" program. Allocations to agriculture cover all the expenditures of the MTS's; provide investment funds, working capital, and some subsidies to state farms; and finance general agricultural programs, such as irrigation, afforestation, experiment stations, and agricultural resettlement. The distribution of planned budgetary allocations to Agriculture in 1955 and 1956 is shown in Table 9.

Table 9
 Soviet Budget Allocations to Agriculture a/
 1955 and 1956

Billion Current Rubles			
Item	Original 1955 <u>b/</u>	Revised 1955 <u>c/</u>	1956 <u>d/</u>
Machine tractor stations			
Operating expenditures	(23.3) <u>e/</u>	N.A.	N.A.
Fixed investment	(9.3)	N.A.	N.A.
Total	<u>32.6</u>	<u>N.A.</u>	<u>32.7</u>
State farms			
Operating expenditures	3.1	N.A.	N.A.
Fixed investment	6.6	N.A.	N.A.
Total	<u>9.7</u>	<u>N.A.</u>	<u>8.0</u>
Other	<u>12.8</u>	<u>N.A.</u>	<u>7.9</u>
Grand total	<u>55.1</u>	<u>48.1</u>	<u>48.6</u>

a. Plan figures.

b. As announced in the 1955 budget speech on 3 February 1955. 74/ Estimated distribution of MTS allocations is based on source 75/.

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Table 9

Soviet Budget Allocations to Agriculture a/
1955 and 1956
(Continued)

-
- c. Planned 1955 allocations expressed in the prices effective on 1 July 1955. From Table 8, p. 28, above.
 - d. 76/
 - e. Figures in parentheses are estimates.

The bulk of allocations to Agriculture goes to MTS's, which, as "gross budgetary institutions," turn all their revenues into the budget and make all their outlays from budget funds.* In 1956 the MTS's will receive two-thirds of all budgetary allocations to agriculture, an increase over their share of 59 percent in the planned 1955 budget. Over one-fourth of MTS expenditures are estimated to be spent on new fixed investment, with the remainder covering operating expenses, including wages, fuel, materials, and repairs. Although the 1956 allocation is virtually identical in ruble terms with the 1955 allocation, allowance must be made for price reductions on 1 July 1955 affecting fuel and machinery and equipment. Thus in 1956, 32.7 billion rubles will finance a substantially higher level of investment and operations than the 32.6 billion rubles allocated in 1955.

State farms will receive 8 billion rubles or one-sixth of budget allocations to Agriculture in 1956. Of this, perhaps two-thirds will be devoted to new fixed investment, primarily in state farms in the "new lands." In 1955, 6 billion rubles of the total state farm allocation of 9.7 billion rubles was spent in the "new lands" area. 77/ The decline in state farm allocations from 9.7 billion rubles in the 1955 budget to 8 billion rubles in 1956 can be explained in part by the completion of basic expenditures for the creation of state farms in the "new lands" 78/ and in part by the reduction in state farm expenditures resulting from the mid-1955 price reduction.

* See II, D, 2, above, for discussion of plans to convert the MTS's to a self-supporting basis.

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In addition to financing new fixed investment, allocations to state farms will provide increased working capital; will finance various operational expenditures, such as measures against plant and animal diseases, land surveys, and forest conservation 79/; and apparently will furnish subsidies to cover losses. A drive to eliminate state farm subsidies was begun in 1954 by increasing their revenues and reducing their costs. Revenues were increased by raising the prices paid to state farms for their output. Cost reductions were to be obtained in part through lower prices for inputs such as feed and mineral fertilizer and through a redefinition of the cost of production to exclude expenditures for housing services. The major part of cost reductions, however, was planned to come from increased efficiency of operations. 80/ Because the latter has not been achieved, the need for subsidies has evidently not been eliminated. According to Zverev, 81/

In 1954, 1,217 state farms gave profits in the sum of 968 million rubles. In 1955 leading state farms gave profits in approximately that amount. However, many state farms still continue to operate unsatisfactorily, bringing large losses to the state. In 1954, over two-thirds of the state farms of the USSR Ministry of State Farms finished the year with a loss in the sum of 1,763 million rubles. In 1955 losses of these state farms amounted to almost 2 billion rubles.

Although some of these losses are covered by the redistribution of the profits of successful state farms, budget subsidies are apparently still required.

The Other agricultural allocation in Table 9* includes expenditures for a variety of purposes, including soil and water conservation; experiment stations; mass plant and animal protection campaigns; formation of forest, water, and animal reservations; and mass agricultural resettlement. 82/ The decline in these allocations from 12.8 billion rubles in the 1955 budget to 7.9 billion rubles in 1956 can be attributed in part to the 1955 price reduction but primarily to the virtual completion of the actual settlement phase of the "new lands" program. In 1954 and 1955 the state budget paid for the transfer of families and property to the "new lands" area and

* P. 31, above.

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gave grants to the new settlers. ^{83/} In addition, budget grants were made to collective farms in the "new lands" for surveying and clearing the new areas; planning villages; building irrigation and drainage works; and construction of roads, bridges, and water supplies. ^{84/} With the virtual completion of the settlement phase of the "new lands" program in 1955, these expenditures will not be repeated in 1956, although state investment in MTS's and state farms in the "new lands" will continue at a high level.

d. Domestic Trade.

Allocations to the Ministry of Trade in 1956 are 1.7 billion rubles, or approximately the same as in 1955, when Trade allocations from the budget and organizational funds fell to one-third of the 5.6 billion rubles allocated in the "new course" year of 1954. About one-third of the 1956 allocations will be furnished by the budget and two-thirds will come from organizational funds. Allocations will be used to expand retail trade facilities in urban areas, where the Ministry of Trade operates. In rural areas, retail trade is conducted by the consumer cooperatives, which are not financed by the budget.

e. Transport and Communications.

Allocations to Transport and Communications in 1956 are planned to increase to 40.6 billion rubles, or 9 percent above the planned 1955 level (in comparable prices). These allocations will finance the electrification and dieselization of railroads and the construction of new rail lines as well as the expansion of other transport services and communications scheduled in the Sixth Five Year Plan.

f. Procurement.

Budget allocations to Procurement under Financing the National Economy have been estimated for 1952-55 in Table 6.* No estimate can be made for 1956, however, because of recent changes in the procedures for financing procurement organizations, which affect the size of budget allocations to procurement. Allocations to procurement organizations cover fixed investment; expansion of working capital; and also a reimbursement to these organizations for overpayment of the turnover tax, which results from the Soviet multiprice system of agricultural

* P. 21, above.

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procurement. These tax rebates constitute the bulk of allocations to Procurement in Financing the National Economy, estimated at 11.5 billion rubles in the planned 1955 budget. In that year, fixed investment in the Ministry of Agricultural Procurement was planned at 2.6 billion rubles, 85/ and the Ministry's share of the total planned increase of nonindustrial working capital of 2.4 billion rubles* could not have been very large. Thus most of the allocation was devoted to compensating procurement organizations for overpayment of turnover tax.

These tax rebates are necessary because procurement organizations buy agricultural products from producers at various prices but sell them at a single price. Procurement organizations buy agricultural products at the following prices: compulsory delivery prices paid to collective farms for quota sales ("procurement" prices), the higher prices paid to collective farms for above-quota sales ("purchase" prices), and prices paid to state farms for their deliveries (state farm "delivery" prices). When procurement organizations sell to processing industries, however, they sell at a single "accounting" price and pay to the budget a turnover tax which represents the difference between the "accounting" price, on the one hand, and the low "procurement" price, plus a margin for the services rendered by the procurement organizations, on the other. 86/ On agricultural products actually purchased at "procurement" prices, this level of taxation leaves the procurement organizations with a small margin which enables them to cover expenses and show a profit. On agricultural products acquired at the higher "purchase" or "delivery" prices, however, this level of taxation causes the procurement organizations a loss, as they pay out in "purchase" or "delivery" prices to producers and in turnover tax to the budget more than they receive from processing industries. The amount of their loss corresponds to the difference between "procurement" prices and "purchase" or "delivery" prices on agricultural products acquired at the latter two prices. Procurement organizations are compensated for these losses by allocations from the budget.

It appears that most of these reimbursements have been made under allocations to Procurement under Financing the National Economy. Some reimbursements, however, such as those on livestock, have been made from Other Expenditures rather than from Financing

* See Tables 10 and 11, pp. 40 and 42, respectively, below.

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the National Economy 87/ In 1953, however, there was a shift of some allocations for reimbursing procurement organizations from Financing the National Economy to Other Expenditures. In connection with the increase in agricultural prices in that year, reimbursements to agricultural procurement organizations for grain acquired at "purchase" prices from collective farms were shifted from Financing the National Economy to Other Expenditures. 88/ The magnitude of this shift is not known, but its effect was to place in Other Expenditures rather than in Financing the National Economy the increase in procurement reimbursements that must have followed the increase in grain "purchase" prices in 1953.

Estimation of the level of Procurement allocations in 1956 is complicated by two developments. It has been reported in a journal of the Ministry of Procurement 89/ that, effective 1 January 1956, the prices paid by the milling industry to grain procurement organizations were changed in order to cover the cost of grain acquired at "purchase" and "delivery" prices as well as "procurement" prices. As a result, reimbursement from the budget presumably will no longer be required. Another change in Procurement allocations may also be expected from the decree of 30 January 1956, sharply increasing "procurement" and "purchase" prices for vegetables. 90/ Because of the unknown magnitude of these changes and a lack of information on agricultural prices and on the different amounts of agricultural output acquired at "procurement" and "purchase" prices, no estimate of allocations to Procurement can be made for 1956.

g. Other Expenditures in Financing the National Economy.

In addition to Procurement allocations, the residual, or Other Expenditures sector, in Table 8* includes allocations to a number of activities not specified in recent budget speeches. In prewar budgets, Financing the National Economy included the Municipal Economy, State Reserves, the Chief Directorate of Precious Metals of the Ministry of Finance (presumably the agency which purchases gold from domestic producers), the Ministry of Foreign Trade, and several minor activities, such as the Chief Directorate of Hydrometeorology and Chief Directorate of Geodosy and Cartography. 91/ It is speculated that the development of atomic energy may also be included under Financing the National Economy. It was suggested above,

* P. 28, above.

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however, that the hypothetical allocations for atomic energy may have shifted from the unspecified residual to Heavy Industry in 1955.*

One component of the unspecified residual which may be expected to grow in the future as a result of the new Soviet foreign trade and aid program is allocations to the Ministry of Foreign Trade. An examination of the internal financing procedures of Soviet foreign trade organizations suggests that some type of allocations from the budget, analogous to those provided to procurement organizations, would be required. Allocations would appear to be necessary to reimburse foreign trade organizations for bookkeeping losses resulting from differences between Soviet internal prices and international prices, which the foreign trade organizations incur because they exchange rubles for foreign currency at the State Bank at the rate of 4 rubles to the dollar. 92/ For example, if a foreign trade organization imports an article with a world price of US \$200 and a Soviet internal price of 1,000 rubles, it would pay the State Bank 800 rubles to obtain \$200 and receive a 200-ruble profit which results not from the efficiency of the trading organization but from price differences and the exchange rate used. Conversely, if a foreign trade organization exports an article with a Soviet domestic price of 1,000 rubles and gets US \$200 on the world market, it will receive only 800 rubles when it turns the US \$200 over to the State Bank. Its loss of 200 rubles likewise is attributable to the price and exchange rate structure, not to inefficiency.

Soviet foreign trade organizations are self-sustaining enterprises whose revenues are supposed to cover costs and provide a profit representing a trader's commission. 93/ They would not be expected, therefore, either to retain gains on imports or incur losses on exports when these gains and losses are due to price differences and exchange rates beyond the control of the organizations. It has been pointed out above** that gains on imports are paid into the budget as customs revenue. No discussion has been encountered in Soviet foreign trade accounting literature of the treatment of losses on exports, but it appears that such losses must exist so long as the ruble-dollar ratio on any exports exceeds 4 to 1, 94/ the rate at which the State Bank buys the dollars which foreign trade organizations receive from sales of Soviet goods abroad. As ruble differences on imports are paid into the budget, they are not available to trade

* P. 29, above.

** P. 17, above.

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organizations to offset ruble differences on exports. The latter presumably must therefore be covered by budget allocations. Allocations to reimburse foreign trade organizations for bookkeeping losses on exports would tend to rise as the volume of exports increased but tend to diminish as the difference between the ruble-dollar ratio for exports and the exchange rate of 4 to 1 narrowed.

Only a small portion of the unspecified residual may be accurately estimated, in certain years. Thus in Table 6,* budget allocations to the Municipal Economy for municipally operated housing and public utilities have been estimated for 1952-56 from data in the republican budgets. Procurement allocations are estimated for 1952-55 but not for 1956, for reasons discussed above. Sufficient information is not available to make reliable estimates of the size of other allocations in the unspecified residual.

It is thus difficult to explain the sharp increase in the unspecified residual shown in Table 8,** which rose from 31.7 billion rubles in the original 1955 budget to 56.3 billion rubles in the 1956 budget. Table 8 does show, however, that most of the increase actually occurred sometime in 1955, for the revised 1955 figures, presented in a 1956 journal article by Zverev, show an increase of 18 billion rubles over the original 1955 figures, which he had presented in his budget speech on 3 February 1955. The revised figures are described as planned 1955 allocations in new (effective 1 July 1955) prices and are compared by Zverev with those for 1956. The specified allocations to Industry, Agriculture, and Transport and Communications show the effects to be expected from the wholesale price cut, which apparently reduced these specified budget allocations by 11 to 14 percent. The unspecified allocations increased by 18 billion rubles, however, instead of falling as a result of the price reduction. It appears, therefore, that in the revised figures some expenditures were included which were not in the original budget figures. Because the activities included in the residual in the original budget figures should have benefited from the price reduction, like the specified allocations, it is suggested that the additional expenditures must have exceeded 18 billion rubles, perhaps amounting to 20 billion rubles.

* P. 21, above.

** P. 28, above.

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It is possible that these increased allocations to Financing the National Economy could have come from a transfer of expenditures from some other part of the budget or from new expenditures not authorized in the budget of 3 February 1955. There is no evidence of a reduction in real expenditures in other budget categories sufficient to permit a transfer of 20 billion rubles to Financing the National Economy. Actual expenditures in 1955 for Social-Cultural Measures, Loan Service, and Administration were virtually the same as planned. Defense expenditures were probably reduced as a result of the price cut and a claimed reduction in troop strength, but in view of allocations authorized in the 1956 budget, the difference between planned and actual 1955 Defense allocations would not have approached 20 billion rubles. No substantial shift from Other Expenditures seems likely either, in view of the increase of this category from 34.8 billion rubles in the planned 1955 budget to 41.8 billion rubles in the planned 1956 budget (see Table 6*).

Thus it appears likely that new expenditures classified in Financing the National Economy were authorized during 1955, after the announcement of the budget on 3 February 1955, and included in Zverev's revised figures. Whereas increases in some components of the residual may have been authorized during 1955, there is no indication of changes in these activities approaching the order of magnitude of 20 billion rubles. It is not possible, therefore, on the basis of available information to identify the factors responsible for the sharp increase in the unspecified residual in the revised 1955 figures.

2. Allocations by End Use.

Allocations to Financing the National Economy provide funds for new fixed investment, expansion of working capital, capital repairs, and various operational expenditures. Table 10** shows the estimated distribution, by end use, of planned allocations for Financing the National Economy in 1954-56. Although the estimated character of virtually all the figures makes them subject to some error, the table reveals the order of magnitude and general trends of the categories indicated. Available data permit the distribution of capital allocations into fixed investment, expansion

* P. 21, above.

** Table 10 follows on p. 40.

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Table 10

Financing the National Economy of the USSR:
 Distribution of Funds by End Use a/
 1954-56

	Billion Rubles <u>b/</u>		
	<u>1954</u>	<u>1955</u>	<u>1956</u>
Capital allocations			
Fixed investment <u>c/</u>	(156.0)	(156.0)	(154.0)
Expansion of working capital <u>d/</u>	15.9	12.0	11.7
Capital repairs <u>e/</u>	(35.3)	(39.0)	(40.0)
Total	<u>(207.2) <u>f/</u></u>	<u>(207.0)</u>	<u>(205.7)</u>
Operational allocations			
Industry <u>g/</u>	(25.7)	(55.1)	(46.7)
Other	(93.8)	(73.1)	(94.6)
Total	<u>(119.5)</u>	<u>(128.2)</u>	<u>(141.3)</u>
Total allocations for Financing the National Economy <u>d/</u>	<u>326.7</u>	<u>335.2</u>	<u>347.0</u>

a. Plan figures.

b. Current rubles except for fixed investment and total allocations to Financing the National Economy.

c. Fixed investment outlays in allocations to Financing the National Economy are equal to total state fixed investment outlays less those financed under other allocations -- for example, under Social-Cultural Measures or Administration. It is estimated that approximately one-half of the residual investments in Table 12, p. 43, below, consists of outlays financed under other allocations. 95/ Therefore, to obtain the fixed investment figures in this table, one-half of the residual line in Table 12, below, was subtracted from total investments in Table 12. Figures for 1954 and 1955 are in investment planning prices of 1 July 1950; figures for 1956 are in investment planning prices of 1 July 1955.

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Table 10

Financing the National Economy of the USSR:
Distribution of Funds by End Use
1954-56
(Continued)

-
- d. From Table 7, p. 26, above.
e. Total capital repairs, less 1 billion rubles per year for estimated capital repairs in expenditures for Social-Cultural Measures and Administration.
f. Figures in parentheses are estimates.
g. From Table 11, p. 42, below.

50X1

of working capital, and capital repairs for the economy as a whole. Operational allocations can be divided only broadly into those for industry and those for other sectors of the economy. Table 11* shows the distribution by end use of allocations to Soviet industry. The estimates for operational allocations to industry in Table 11 have been derived by deducting from total allocations to industry those allocations intended for capital purposes. From Table 10, it is evident that capital allocations constitute about 60 percent and operational allocations about 40 percent of all allocations to Financing the National Economy. New fixed investment is the largest single category, representing close to 50 percent of total allocations for Financing the National Economy and 75 percent of capital allocations. Within the operational allocations group, marked changes took place during 1954-56, corresponding to the changes discussed above in heavy industry allocations in 1955 and in the residual in Financing the National Economy in 1956.**

a. Fixed Investment.

Most of fixed investment in the USSR is made by state enterprises and institutions under the state investment plan. The size and distribution of these investments in 1954-56 are shown in Table 12.*** Some investments, totaling 30 to 40 billion rubles, are

* Table 11 follows on p. 42.

** See III, A, 1, a, and III, A, 1, g, above.

*** Table 12 follows on p. 43.

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Table 11

Financing Soviet Industry: Distribution of Funds by End Use a/
1954-56

	Billion Rubles <u>b/</u>		
	<u>1954</u>	<u>1955</u>	<u>1956</u>
Fixed investment <u>c/</u>	104.0	(101.0) <u>d/</u>	104.4
Expansion of working capital <u>e/</u>	(12.7)	9.6	(9.4)
Capital repairs <u>f/</u>	(21.8)	(24.0)	(24.6)
Operational outlays	(25.7)	(55.1)	(46.7)
Total <u>g/</u>	<u>164.2</u>	<u>189.7</u>	<u>185.1</u>

a. Plan figures.

b. Current rubles, except for fixed investment and total.

c. From Table 12, p. 43, below. Figures for 1954 and 1955 are in investment planning prices of 1 July 1950; the 1956 figure is in investment planning prices of 1 July 1955.

d. Figures in parentheses are estimates.

e. In that year, planned expansion of working capital in industry amounted to 80 percent of total planned expansion of working capital. The same percentage was applied to figures for total planned expansion of working capital in 1954 and 1956 in Table 7, p. 26, above.

f. Estimated at 60 percent of total capital repairs. 98/

g. From Table 8, p. 28, above.

50X1

also made outside the plan. The plan excludes small investments made on a decentralized basis by state enterprises, the investments of collective farms and cooperatives, and private investments in housing. Virtually all of the investments under the state investment plan are made in various sectors of activity financed by allocations for Financing the National Economy. Part of the residual line in Table 12, however, corresponds to fixed investment in schools, hospitals, general administrative buildings, and probably some basic defense construction. These investments are financed under other budget allocations, such as those for Social-Cultural Measures, Administration, and probably Defense. During the Fifth Five Year Plan period, Social-Cultural investments amounted to about 25 billion rubles. 99/

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Table 12
 Soviet State Capital Investment a/
 1954-56

	Billion Rubles				
	<u>1954 ^{b/}</u>		<u>1955 ^{b/}</u>		<u>1956</u>
	<u>Plan</u>	<u>Actual</u>	<u>Plan</u>	<u>Actual</u>	<u>Plan ^{c/}</u>
Industry					
Heavy	90.0	(90.0) ^{d/}	93.5	(97.2)	96.6
Light	14.0	(11.8)	N.A.	(7.2)	7.8
Subtotal	<u>104.0</u>	<u>(101.8)</u>	<u>N.A.</u>	<u>(104.4)</u>	<u>104.4</u>
Agriculture	21.0	(19.0)	N.A.	(20.6)	21.3
Transport and communications	18.6	(18.0)	N.A.	(19.0)	21.5
Other	25.4	(18.2)	N.A.	(22.0)	13.6
Total	<u>169.0</u>	<u>(157.0)</u>	<u>167.2</u>	<u>(166.0)</u>	<u>160.8</u>

50X1

- b. In investment planning prices of 1 July 1950.
 c. In investment planning prices of 1 July 1955.
 d. Figures in parentheses are estimates.

Fixed investment is financed in part from budget allocations and in part from organizational funds. The distribution of financing between these two sources has been indicated above in Table 7,* where it is shown that approximately two-thirds of total financing is supplied by budget allocations. The remainder, furnished by organizational funds, consists of three parts: a portion of amortization allowances, part of retained profits, and an allowance for savings in investment costs. The last named results from price reductions or increases in the efficiency of construction

* P. 26, above.

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since the date on which investment planning prices were fixed, and from the "mobilization of internal reserves of construction," such as the use of excess stocks of materials. Thus of planned organizational allocations of 57.9 billion rubles in 1955, profits were to furnish 11.9 billion rubles; amortization allowances, 21.8 billion rubles; and the reduction in investment costs below the level of the investment planning prices of 1 July 1950, the remaining 24.2 billion rubles. 101/ In 1956, on the other hand, of the 42.4 billion rubles planned for organizational allocations, profits represent 15.3 billion rubles and amortization funds represent 23.1 billion rubles; cost savings below the investment planning prices of 1 July 1955, in effect for the Sixth Five Year Plan period, represent only 4.0 billion rubles. 102/ Organizational allocations, therefore, consist only in part of actual outlays from current funds; the remainder represents the difference between actual investment costs and costs calculated according to base-date investment planning prices.

Because the figures for 1954 and 1955 in Table 12 are expressed in investment planning prices of 1 July 1950, which were used for the Fifth Five Year Plan, and because figures for 1956 are expressed in prices of 1 July 1955, in effect for the Sixth Five Year Plan, allowance for the 16-percent drop in aggregate investment costs between those two dates* must be made in comparing allocations in different years. According to Zverev, the 160.8 billion rubles of investment planned for 1956 actually represents an increase of 15 percent over realized 1955 investment when adjustment is made for price differences. 103/ Investment in each of the sectors will also increase by more than it appears from a direct comparison of the 1956 figures (in 1955 prices) with the earlier figures (in 1950 prices). In 1956, as in the past, Heavy Industry receives the largest share of investment -- 60 percent, or more than 12 times the share of Light Industry. Although investment in Light Industry in 1956 will exceed the level of 1955, it will still be well below the level achieved in 1954, the "new course" year, even after adjustment for price differences. Of the remaining sectors, the shares both of Agriculture and of Transport and Communications in total investment will increase in 1956, compared with 1955, chiefly at the expense of the residual category.

Although virtually all investments in Industry, Transport and Communications, and Social-Cultural Measures are made within the national investment plan, this is not true of investment in Agriculture. Only about half of total investment in Agriculture is made in

* See I, B, above.

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state agriculture under the national investment plan; the remaining half consists of collective farm investment. In Table 13 the distribution of total agricultural money investment between state and collective farm investment is shown for 1953-56. It is estimated that total investment in 1956 is planned at 46 billion rubles.

Table 13
 Soviet Money Investment in Agriculture
 1953-56

	Billion Rubles			
	<u>1953</u> <u>Actual</u>	<u>1954</u> <u>Actual</u>	<u>1955</u> <u>Actual</u>	<u>1956</u> <u>Plan</u>
State investment <u>a/</u>	12.0	(19.0) <u>b/</u>	(20.6)	21.3
Collective farm money investment <u>c/</u>				
Long-term bank loans <u>c/</u>	2.6	3.8	4.1	5.0
Own funds <u>c/</u>	10.3	12.8	16.5	(20.0)
Total	<u>12.9</u>	<u>16.6</u>	<u>20.6</u>	<u>(25.0)</u>
Grand total	<u>24.9</u>	<u>(35.6)</u>	<u>(41.2)</u>	<u>(46.3)</u>

- a. Figures for 1953-55 are in investment planning prices of 1 July 1950; figures for 1956 are in investment planning prices of 1 July 1955. From Table 12, p. 43, above,
- b. Figures in parentheses are estimates.
- c. Current rubles.

50X1

50X1

State investment in agriculture includes investments in the MTS's, in state farms, and in general projects such as irrigation, electrification, and afforestation. In 1955, planned investment in the MTS's is estimated at 9.3 billion rubles, whereas planned state farm investment was announced as 6.6 billion rubles.* Investment in general projects may have been about 4 billion rubles. The distribution of

* See Table 9, p. 31, above.

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planned 1956 investment of 21.3 billion rubles in state agriculture has not been announced, but it is probable that the total will be distributed approximately as in 1955. State agricultural investment will increase in 1956 by considerably more than appears from a comparison of 1955 and 1956 figures in Table 13, because of the difference in the prices in which these figures are expressed.

Collective farm money investment finances all types of agricultural investment, including construction, purchase of livestock, acquisition of machinery and equipment, electrification, and irrigation and land improvement. In addition, collective farms make investments-in-kind in the form of the labor of their members on construction projects and in the form of natural increases in herds. Because of the difficulty of valuing investments-in-kind, they have been omitted in Table 13.

As Table 13 shows, both collective farm and state investment have risen steadily above the 1953 level, reflecting the inauguration of the "new lands" program and the current emphasis of Soviet agricultural policy on expanding wheat, corn, and livestock production. Increases in agricultural prices since 1953 have provided collective farms with increased income, from which they have made progressively larger investments. In addition, the Agricultural Bank has made loans to the collective farms. Although loans have also increased since 1953, it is estimated that in 1956 they will finance only about one-fifth of total collective farm money investment. The retained income of the collective farms thus remains the principal source of their investments and a major source of total Soviet investment in agriculture.

b. Expansion of Working Capital.

Soviet enterprises operate with two types of working capital -- their "own" working capital and borrowed working capital. "Own" working capital is increased both from budget grants and from organizational funds. Working capital may be expanded from organizational funds either through the allocation of profits to working capital or through an increase in funds earmarked to offset accruing current liabilities. 106/ In 1956, for example, it is planned that 10.2 billion rubles from profits will be allocated to the expansion of working capital (see Table 4*), but working capital from

* P. 12, above.

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organizational funds will increase by only 7.9 billion rubles (see Table 7*), as a result of a decline of 2.3 billion rubles in funds for offsetting accruing current liabilities.

In addition to budget and organizational allocations of "own" working capital, Soviet enterprises get short-term credit from the State Bank. In Table 14 the level of State Bank credit outstanding has been estimated for 1951-56. From this table the annual increase in working capital from short-term credit may be derived. In Table 15,** the increases in working capital of Soviet enterprises are shown for 1952-56. From Table 15 it appears that less than half of the annual increase in working capital has been obtained from borrowed funds.

Table 14

Soviet State Bank Credit
1951-56

Billion Current Rubles

Credit Outstanding
on 1 January of Year

1951 <u>a/</u>	(190) <u>b/</u>
1952	(196)
1953 <u>c/</u>	203
1954 <u>d/</u>	208
1955	(215)
1956 <u>e/</u>	(223)

a. 107/

b. Figures in parentheses are estimates.

c. 108/

d. 109/

e. 110/

* P. 26, above.

** Table 15 follows on p. 48.

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Table 15

Increases in Working Capital of Soviet Enterprises
1952-56

Billions Current Rubles

Year	Planned Increase in Own Working Capital ^{a/}			Actual Increase in Borrowed Working Capital ^{b/}
	From Budget	From Organi- zational Funds	Total	
1952	4.6	6.1	10.7	(7) ^{c/}
1953	4.3	10.8	15.1	5
1954	4.8	11.1	15.9	(7)
1955	5.5	6.5	12.0	(8)
1956	3.8	7.9	11.7	N.A.

- a. From Table 7, p. 26, above.
b. From Table 14, p. 47, above.
c. Figures in parentheses are estimates.

In 1953 the actual increase in borrowed capital was only one-third of the planned increase in "own" working capital. In 1954 and 1955 it appears that a greater share of the increase in working capital came from bank credit than in previous years. This increased dependence of Soviet enterprises on bank credit for working capital is probably one of the results of the August 1954 financial reforms, which were intended to strengthen the control of the State Bank over the financial transactions of Soviet enterprises. 111/

c. Capital Repairs.

Capital repairs are financed in part from the budget and in part from organizational funds. Soviet enterprises devote a part of amortization allowances to capital repairs, and, in addition, some retained profits may be allocated to finance capital repairs. Very little has been published in the postwar period about either the amount of total capital repairs or the relative importance of the different sources of financing. In 1951, total capital repairs were planned at

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29.4 billion rubles, 112/ and in 1955 it was planned that 18.7 billion rubles would be spent for the repair of industrial machinery and equipment. 113/ In Table 10,* capital repairs financed by allocations for Financing the National Economy are estimated at 40 billion rubles in 1956. In addition, it is thought that perhaps 1 billion rubles may be spent for capital repairs of social-cultural and administrative structures and equipment. No postwar information is available on the shares of the different sources of financing capital repairs, but it appears reasonable to assume that the budget provides at least 25 percent, the share which it furnished in the 1941 capital repair plan. 114/

d. Operational Allocations.

Operational allocations under Financing the National Economy comprise a variety of noncapital expenditures. They include the operating expenditures of "budgetary" institutions like the MIS's; government purchases of goods and services, such as the cost of operating agricultural experiment stations; reimbursements for price differentials**; subsidies; and a number of developmental expenditures, such as expenditures for inventions and new products. In addition to allocations under Financing the National Economy, operational funds are furnished to enterprises from the Social-Cultural Measures category of the budget for scientific research, factory education, and maintenance of nurseries. 115/

Although most subsidies were abolished as a result of the increase in wholesale prices and freight rates in 1949, subsidies are still granted to selected industries and activities where prices are not fixed high enough to cover costs of production. In most industries, losses are covered by the redistribution of profits within a given chief directorate. Budget subsidies, however, are still granted to the timber industry, 116/ state farms,*** 117/ and probably other activities whose subsidies have not been identified. Large losses are reported in the Ministry of the Fish Industry 118/ and also in the Ministries of the Coal Industry and of Machinery and Instruments Building, 119/ and it is possible that some subsidies are provided to these activities.

* P. 40, above.

** See III, A, 1, f and g, above.

*** See III, A, 1, c, above.

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Several types of developmental outlays financed from the budget as operational allocations for Financing the National Economy may be distinguished. They include (1) expenditures for "mastering the production of new products," (2) outlays for technical improvements and inventions, (3) "starting expenditures" of new enterprises, (4) expenditures of investment-planning organizations, and (5) outlays for "state measures" of interest to the economy as a whole.

Expenditures for mastering the production of new products include those for the design of new products, construction and testing of experimental models, development of production processes, and cost analysis and norm setting. 120/ Budget funds are granted for these outlays when it is not considered desirable to set product prices high enough to cover initial development costs. 121/

Expenditures for technical improvements and inventions comprise those for studies, experiments, and tests; manufacture of models; bonuses for inventions and improvements; and modification of norms and standards. 122/ Budget grants are made only for improvements and inventions of interest to an entire branch of industry or the economy as a whole. The cost of improvements and inventions of interest only to the individual enterprise is covered by revenue from the sale of product. 123/

Starting expenditures of new enterprises, such as the cost of organizing production and training workers, may also be financed from the budget rather than included in the price of the product. 124/ Because these expenses are ordinarily connected with bringing new fixed assets into operation, however, they are sometimes included in allocations for fixed investment. 125/ On the other hand, the cost of operating investment-planning organizations is not included in fixed investment allocations but is instead covered by operational allocations from the budget. 126/

Finally, budget funds are allocated to enterprises to cover expenditures which are made by the enterprise but which have implications for the development of the economy as a whole, such as expenditures for resettlement of workers, forest conservation, and awards to workers under nationwide productivity drives. 127/

It is not possible at present to determine the size of these different developmental outlays or to estimate the shares which the different types of operational expenditures represent of the total

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operational allocations shown in Table 10.* Operational allocations may, however, be roughly estimated between those to industry (see Table 11**) and those to other sectors. As Table 10 indicates, operational allocations have risen in recent years, and planned allocations in 1956 are estimated at 141 billion rubles, or 10 percent more than the planned 1955 level, despite the wholesale price reduction of mid-1955. This rising trend reflects increased allocations for MTS's and other agricultural activities, larger allocations to Procurement and possibly foreign trade organizations, and growing developmental expenditures. If the cost of developing modern weapons is borne by allocations to the defense industry under Financing the National Economy, current emphasis on expensive, highly complex military end items would also be responsible for a rising trend in operational allocations. The initial use of atomic power in industry may likewise require operational allocations.

The marked changes in the industry and other operational allocations shown in Table 10 appear to correspond to the changes analyzed above in the discussion of the sectoral distribution of allocations for Financing the National Economy.*** The increase in industrial operational allocations and decrease in other operational allocations from 1954 to 1955, as shown in Table 10, result from the apparent shift of allocations from the residual in 1954 to Heavy Industry in 1955, as shown in Table 8.**** Industrial operational allocations in Table 10, however, increased by more than the decline in other operational allocations, indicating a net increase in industrial operational allocations, which would be expected as the activities financed by these allocations expanded. In 1956, as compared with 1955, industrial operational allocations in Table 10 decline by about 8 billion rubles, or 15 percent, whereas other operational allocations increase by 20 billion rubles. The decline in industrial allocations is due in large part to savings from the 1955 price cut and possibly also to the elimination of some subsidies. The increase in other operational allocations, on the other hand, is connected with the increase in the unspecified residual in Financing the National Economy, most of which, it was suggested above,***** actually occurred during 1955. Although the specific nature of the allocations which increased cannot be definitely identified, it appears from Table 10 that they

* P. 40, above.

** P. 42, above.

*** See III, A, 1, g, above.

**** P. 28, above.

***** P. 38, above.

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were primarily operational in character rather than representing a significant increase in investment.

B. Social-Cultural Measures.

Allocations for Social-Cultural Measures in 1956 are planned at 161.5 billion rubles, or 28 percent of total budget expenditures. Social-cultural expenditures are planned to increase 10 percent over actual 1955 expenditures of 146.7 billion rubles. The increase of 15 billion rubles is shared almost equally by the three major types of social-cultural expenditures -- education, health, and social welfare.

1. Education.

Educational allocations in 1956 are 72.8 billion rubles, or 45 percent of total social-cultural expenditures. They include current expenditures for primary and secondary schools, trade and vocational schools, higher education, adult education, nursery schools and orphanages, scientific research, and museums, as well as fixed investment and capital repair outlays in these fields. In 1955, several items in educational expenditures were announced for the first time in recent years. Table 16* shows planned budget allocations to education in 1955 and 1956. In the 1956 budget, only one item, preparation of cadres (professional and skilled workers), was specified.

Planned allocations to scientific research in 1956 are 13.6 billion rubles, of which it is estimated that about two-thirds will come from the budget and one-third from organizational funds. Allocations in 1956 are 17 percent greater than actual 1955 allocations, which in turn were 16 percent higher than planned (see Table 17**). Scientific research allocations will finance research by the Academy of Sciences, ministerial research institutes, and universities and will cover both basic or theoretical research and applied science.

2. Health and Physical Culture.

Allocations for Health and Physical Culture in 1956 are planned at 35.1 billion rubles, or 15 percent more than actual 1955 expenditures. These include funds for hospitals and dispensaries,

* Table 16 follows on p. 53.

** Table 17 follows on p. 54.

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Table 16

Soviet Planned Budget Allocations for Education
 1955 and 1956

	Billion Current Rubles	
	<u>1955</u> ^{a/}	<u>1956</u> ^{b/}
Maintenance of primary and secondary schools	23.0	N.A.
Preparation of cadres		
Trade and agricultural labor training schools (secondary level)	6.9	N.A.
Vocational technical schools (advanced level)	0.4	N.A.
Higher education and secondary semi-professional schools	15.0	N.A.
Subtotal	(22.3) ^{c/}	<u>23.5</u>
Scientific research	(6.7)	(9.1)
Other	(16.4)	N.A.
Total	<u>68.4</u>	<u>72.8</u>

a. 128/

b. 129/

c. Figures in parentheses are estimates.

sanatoriums, medical services for children, antiepidemic activities, medical aid to invalid veterans, and other expenditures, including capital repairs and investment in medical facilities. Of the 5-billion-ruble increase in health expenditures over the 1955 level, 2.6 billion rubles is due to an increase in salaries for medical workers introduced on 1 November 1955. 130/

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Table 17

Soviet Allocations for Scientific Research a/
1951-56

Billion Current Rubles

<u>Year</u>	<u>Budget</u>	<u>Organizational Funds</u>	<u>Total</u>
1951 (plan)	5.3	2.7	8.0
1951 (actual)	5.4	N.A.	N.A.
1952 (actual)	5.6	N.A.	N.A.
1953	N.A.	N.A.	N.A.
1954 (plan)	N.A.	N.A.	9.5
1955 (plan)	N.A.	N.A.	10.0
1955 (actual)	N.A.	N.A.	11.6
1956 (plan)	N.A.	N.A.	13.6

a. 131/

3. Social Welfare.

Social Welfare allocations, including social security, social insurance, and aid to mothers, are planned to increase from 48.1 billion rubles in 1955 to 53.6 billion rubles in 1956. The distribution of Social Welfare allocations among these three groups in the planned 1955 and 1956 budgets is shown in Table 18,* which shows that the increase in 1956 is due to larger social security expenditures. This category includes pensions to disabled veterans and other invalids; funds for rehabilitation of disabled persons; and retirement pensions to scientific, administrative, and other employees not covered by the social insurance system. It excludes, however, pensions to retired members of the armed forces and internal security forces, which are included in the expenditures of the corresponding ministries. Little change was indicated in the 1956 budget speech in allocations for social insurance, which provides temporary disability, retirement, and survivor's benefits for workers in industries where social insurance payments are made to the budget by enterprises, or aid to unmarried mothers and mothers of many children.

* Table 18 follows on p. 55.

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Table 18

Soviet Planned Budget Allocations for Social Welfare
1955 and 1956

<u>Billion Current Rubles</u>		
<u>Allocation</u>	<u>1955</u> ^{a/}	<u>1956</u> ^{b/}
Social security	25.0	30.5
Social insurance	18.0	17.9
Aid to mothers	5.0	5.2
Total	<u>48.0</u>	<u>53.6</u>

a. 132/
b. 133/

Both social security and social insurance expenditures should increase when the new Soviet pension law, announced on 9 May 1956, goes into effect on 1 October 1956. In the 1956 budget, allowance for this increase was apparently made in the social security allocation but not in the social insurance allocation. Some overfulfillment of the latter may therefore be expected in 1956.

C. Administration.

Allocations to Administration include expenditures of all central administrative-control organs, such as the Ministry of Foreign Affairs, the State Planning Commission, judicial bodies, and the administrative overhead of the economic ministries. Two-thirds of these allocations go for the payment of wages and the remaining third covers the purchase of office supplies and equipment, travel funds, and the construction and repair of administrative buildings. 134/ In connection with administrative reorganizations after Stalin's death, the number of persons on administrative staffs was reduced by 750,000 in 1954-55, causing a saving of 7.2 billion rubles per year. 135/ Most of these people, however, were on the payrolls of factories, trusts, and combines and were paid out of revenue from the sale of product, rather than from budget allocations for central administration. 136/ Thus budget allocations for Administration were reduced by only 1.8 billion rubles -- from 14.3 billion rubles in 1953 to 12.5 billion

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rubles in 1955. The remainder of the saving in administrative personnel costs represented "economies in administration." These savings are treated in Soviet budgetary accounting as revenue, since ministries are required to pay into the budget an amount corresponding to the planned reduction in administrative overhead.*

D. Defense.

1. Explicit Defense Expenditures.

The Defense allocation mentioned in budget speeches is the allocation to the Ministry of Defense for maintaining the land, sea, and air forces of the USSR. These allocations cover expenditures for personnel, including food, clothing, pay, housing, and services; probably capital construction of some military facilities; repairs and other expenditures on operations and maintenance; and procurement of military end items.

Much was made in the 1956 budget speech, and also in subsequent speeches by Soviet leaders, of the reduction in Defense expenditures from 112.1 billion rubles in the planned 1955 budget to 102.5 billion rubles in the 1956 budget. Analysis of these figures and related developments, however, indicates that the 1956 allocation will purchase at least as much military capability as the 1955 allocation, and possibly more. First, the mid-1955 industrial price reduction may have cut procurement costs by about 5 billion rubles, accounting for half of the 10-billion-ruble difference between the 1955 and 1956 allocations. If military personnel strength remained unchanged, this would imply a decrease in procurement of military end items of about 5 billion rubles. If a 640,000-man reduction in the Soviet Armed Forces was carried out by 15 December 1955 as claimed, however, 137/ it would have decreased personnel costs by about 5 billion rubles, freeing this sum for procurement. The combined effect of the price cut and the reduction in the armed forces would therefore be about 10 billion rubles, or enough to maintain military procurement at approximately the 1955 level. In 1956, however, procurement costs will decline as various recently introduced models of military equipment -- particularly aircraft -- advance further into quantity production. 138/ It is thus possible, in view of the 1955 price reduction, the claimed reduction in troop strength, and cost savings from quantity production,

* See II, D, 4, above.

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that the 1956 allocation of 102.5 billion rubles will finance the procurement of more military end items than the 1955 allocation of 112.1 billion rubles.

If a further force reduction of 1.2 million men, announced on 14 May 1956, is carried out as scheduled, actual explicit defense expenditures in 1956 should be substantially below planned outlays. Nonexplicit defense expenditures, however, may be increasing at the same time explicit defense outlays are reduced.

2. Other Defense Expenditures.

In addition to the announced allocations to the Ministry of Defense, there are outlays of a defense character in budget allocations to the defense industry, the atomic energy program, and guided missile development.

Allocations for capital and operational expenditures to the various ministries concerned with defense production, such as the Ministries of Defense Industry, Aviation Industry, and Shipbuilding, are included in allocations to Heavy Industry in Financing the National Economy. The magnitude of these defense-oriented allocations cannot be estimated, however.

The location in the budget of expenditures for the development of atomic energy is purely speculative, but it is possible that they are also included in Financing the National Economy. According to Soviet atomic expert Kurchatov 139/:

The matter of building and operating atomic power plants is a national one. An especially large amount of work will have to be done by builders, engineers, and workers of the Ministry of Electric Power Stations, the construction ministries, and the Ministries of Heavy Machine Building, Machine Building, and Electrotechnical Industry.

The prominent role in the atomic energy program assigned to these ministries would support the hypothesis that atomic energy allocations are included in Financing the National Economy and possibly in the Heavy Industry portion of that budget category.

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No evidence is available to indicate the location of budget allocations for guided missile development, but it is possible that such outlays, like allocations to the defense industry, are included in Financing the National Economy.

E. Internal Security.

Internal Security allocations include appropriations for the Ministry of Internal Affairs (MVD) and the Committee on State Security (KGB). The former controls the ordinary police and the border troops, whereas the latter is concerned with investigating crimes against the state such as treason, espionage, and the disclosure of state secrets, and with conducting espionage abroad. The economic activities of the MVD are included in Financing the National Economy. Information from which Internal Security allocations could be estimated has not been available since 1952. In that year, it is estimated that Internal Security allocations were planned at 22.8 billion rubles. Allocations must have declined since then, because of the reduction in the prison population resulting from amnesties after Stalin's death 140 and because of the consolidation of the old Ministry of State Security (MGB) with the MVD in 1953. Although the present KGB became independent of the MVD in 1954, its status as a committee is more modest than that of the old MGB, and it is probable that its expenditures are less than those of the MGB. This suggested decline in Internal Security allocations is supported by the decline in the budget category Other Expenditures, half of which was devoted to Internal Security in 1952.

F. Other Expenditures.

Other Expenditures include service on the state loan, allocations to the reserve funds of the Councils of Ministers, grants to long-term investment banks, and minor expenditures.

Loan service has been increasing steadily, as the number of outstanding bond issues rises. Since 1952, loan service figures refer only to payments to the population, which in 1956 are planned at 14 billion rubles. In addition, loan service is paid to institutional holders of state debt, such as the savings banks. In 1952, loan service to institutional holders was planned at 1.9 billion rubles, and it has probably risen since then, as a result of further investment of savings banks deposits in the state loan each year.

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Allocations to the reserve funds of the USSR Council of Ministers and the Councils of Ministers of the union republics were 6 billion rubles and 100 million rubles, respectively, in the 1952 planned budget. 141/ No figures have been released for later years, but it is probable that these allocations have increased somewhat. The reserve funds consist both of ruble balances intended to meet emergencies (such as losses suffered by enterprises as a result of natural calamities) and of commodity holdings intended to meet unforeseen demands for materials and equipment.

Allocations to long-term investment banks provide funds to these institutions to make loans for investments in activities not directly financed by the budget. Allocations to investment banks were planned at 1.4 billion rubles in the 1952 budget, but it is probable that they have risen substantially in later years, as a result of the increase in credit granted to collective farms by the Agricultural Bank* and the increase in loans for private housing granted by the Communal Bank. 142/

G. Summary of Expenditures.

Soviet budget expenditures in 1956 are planned at 570 billion rubles -- an increase of 6 percent over actual 1955 expenditures. Greater allocations for Social-Cultural Measures (Education, Health and Physical Culture, and Social Welfare) will account for almost half of the 32-billion-ruble increase over 1955. Additional allocations for Financing the National Economy are only 7 billion rubles, less than one-fourth of the increase in total expenditures. Allocations for Financing the National Economy, however, were overfulfilled in 1955, and overfulfillment is possible also in 1956, in view of the modest increase planned. Fixed investment is planned to rise 15 percent above the 1955 level, with Heavy Industry receiving 60 percent of total investment in 1956.

Explicit defense expenditures, consisting of allocations to the Ministry of Defense, represent 18 percent of the 1956 budget, as compared with 20 percent of the planned 1955 budget. Actual 1955 defense expenditures were not announced, and they may well have been below plan, as has occurred in previous years. It appears that the decline in the explicit defense allocation from 1955 to 1956 can be explained by the mid-1955 price reduction, the claimed cut in the

* See III, A, 2, a, above.

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armed forces, and savings from mass production of certain military end items. When allowance is made for these factors, it is possible that the 1956 allocation may finance as much military end-item procurement as in 1955, or even more. Nonexplicit defense expenditures such as those for atomic energy and guided missiles may also have risen.

Budget expenditures of the first year of the Sixth Five Year Plan reflect the priorities of Soviet economic policy. First place in both investment allocations and allocations for Financing the National Economy is given to Heavy Industry, the prime mover of economic growth and the technical and production base upon which the development of modern, highly complex weapons depends. The increased emphasis accorded Agriculture in 1954 continues, as shown by the maintenance of a high level of budget allocations to Agriculture after the completion of the initial settlement phase of the "new lands" program. Light Industry fares slightly better in the 1956 budget than in 1955, but allocations are well below the 1954 peak. Thus Soviet economic policy in 1956, as manifested in the budget, pursues essentially the same objectives as in 1955 -- seeking economic growth and military strength, with secondary emphasis on consumer welfare.

IV. Budgets of the Union Republics.

In 1956 the budgets of the union republics are planned to total 139.6 billion rubles, as compared with 127.3 billion rubles planned in 1955. Of total planned expenditures of 139.6 billion rubles, 44.2 billion rubles will be spent for Financing the National Economy, 85.5 billion rubles for Social-Cultural Measures, and 9.9 billion rubles for other purposes. ^{143/} Thus about 19 percent of total budget expenditures for Financing the National Economy and 53 percent of expenditures for Social-Cultural Measures will be disbursed through the union-republic budgets. The budgets of each of the republics except the Kazakh SSR will share in the 10-percent increase of republic budget allocations over 1955. The Kazakh budget, on the other hand, will fall from 10.1 billion rubles in 1955 to 8.8 billion rubles in 1956, as a result of the completion of part of the "new lands" program expenditures. ^{144/}

The increase in republic budgets is due in part to the growth of the state budget and in part to the continuation of the movement toward decentralization which began in 1954. In the 1956 budget speech, Zverev mentioned several steps taken to increase the authority exercised

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at the union-republic level. First, many additional enterprises in heavy and light industry, construction organizations, and state farms have been placed under the direct jurisdiction of union-republic ministries. Second, the Councils of Ministers of the union republics have been given greater authority to plan capital investment, production, and wages as well as outlays for health, education, social welfare, and municipal services. Thus the state budget will provide block grants for economic and social-cultural expenditures, to be distributed by the union-republic authorities. Third, the planning of local budgets has been transferred from Moscow to the union-republic level. Finally, republic and local authorities will be permitted to make larger investments in social-cultural and municipal facilities outside the state plan for capital investment. 145/ Although these measures will further decentralize the administration of the economy and provide greater flexibility in the solution of local problems, the control of the Soviet economy remains highly centralized, with over 80 percent of the funds allocated in the 1956 budget for Financing the National Economy being controlled by Moscow and less than 20 percent being administered by the union-republic authorities.

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