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CREDIT AND MONETARY POLICIES OF THE USSR
DURING WORLD WAR II

WAR FINANCING AND CURRENCY CIRCULATION

Supporting a fighting army and reorganizing and expanding the economy for war required the mobilization of vast sums of money. In 3½ years of the Patriotic War 420 billion rubles was paid out for the expenses of the People's Commissariat of Defense and the Navy alone. In addition, a large sum was spent on evacuating enterprises and the population to the east, on converting industry, and for other expenses connected with the war. In addition to the usual sources of funds, the following were employed to finance the growing war expenditures:

1. Budget surpluses from prewar years and the free funds of government offices and economic organizations such as balances in directors' funds, economic organizations' surpluses of their own working capital, the free funds of long-term investment banks, etc. This gave the budget more than 20 billion rubles.
2. Funds from the population, primarily voluntary payments showing the patriotism of the Soviet people. This includes receipts into the Defense Fund and the Red Army Fund, money and goods lotteries, and subscriptions to war loans. In addition, a special war tax and taxes on bachelors and childless citizens were introduced. As a result of all this, budget receipts from the population grew from 20.8 billion rubles in the prewar year 1940 to 71.4 billion rubles in 1944.
3. Reduction of expenditures for financing the national economy and social and cultural measures. In the second half of 1941 expenditures on the national economy were 21.6 billion rubles less than called for by the 1941 budget, while expenditures for social and cultural measures decreased by 16.5 billion rubles. It must be taken into consideration, however, that this reduction in expenditures was connected not only with the increase in war expenses but also with the temporary occupation of the Ukraine, Belorussia, etc.

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Increased labor productivity and reduced production costs were of great importance as a source of war financing. Efforts to achieve quality goals were particularly successful in war industry. During the first 3½ years of the war, savings from reducing the production cost of comparable products amounted to about 50 billion rubles.

As a result of the successful mobilization of all these resources, state budget revenues exceeded prewar budget revenues as early as the second year of the war. The 1944 state budget was carried out with a 5-billion-ruble surplus.

The war was financed without recourse to increasing prices for necessities. Under the rationing system workers and office employees were supplied with food and industrial goods at low prices established long before the war. The only prices raised were those for tobacco, alcoholic beverages, perfumes, and cosmetics. Thus, state and cooperative trade, playing the major role in Soviet trade, supplied the population with goods at stable state prices. It is true that the shortage of consumers' goods resulted in an increase in prices on the collective farm market, but even under war conditions collective farm trade played a role secondary to state and cooperative trade.

Beginning in 1943 prices on the collective farm market began to decline as a result of improvements in the rationing system, expansion of the public eating place network, growth in the collective and individual vegetable gardens of the urban populations, and later as a result of the opening of commercial stores in large cities. From 1943 to the end of the war, prices on the collective farm market were more than halved.

CONTROL BY THE RUBLE AND STATE BANK FUNCTIONS UNDER WAR CONDITIONS

Tasks of the State Bank in Reorganization of the National Economy for War

In connection with the reorganization of the national economy for war, the State Bank system had the following chief tasks:

1. To supply regularly and on a priority basis credits to war industry and also to civilian enterprises and cooperative artels for expenditures connected with filling war orders.
2. To insure the accuracy of settlements between economic organizations and also between economic organizations and the military establishment for goods shipped to the front or evacuated from the front and threatened areas.
3. To set up field branches of the State Bank to assure that the army would be paid regularly and to take care of the savings of service personnel and of non-cash transfers to their families.
4. To extend credit to enterprises being evacuated to the east and setting up operations in new locations.
5. To stimulate the production of consumers' goods and the procurement of food by the extension of credit, so as to make up for the shortage of food and industrial goods resulting from supplying the front with food, uniforms, etc.
6. To strengthen control by the ruble over the work of economic organizations, to contend with problems arising under the difficult conditions of the initial period of the war, such as weakened adherence to credit and payments regulations, increased production costs, and unequal distribution of raw materials and fuel stocks among economic organizations.

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7. To try to keep the ruble stable while simultaneously meeting an increased demand for currency, connected with the needs of enterprises working on war contracts, the procurement of agricultural products for the front, and also for expenses resulting from mobilization of the army and evacuation of the population, enterprises, and government offices.

8. To bring more collective farm funds into the State Bank and to free funds tied up in above-plan stocks of enterprises and cooperative artels, thereby reducing to the minimum the disparity between the disbursements and receipts of the State Bank credit plan.

Work of the State Bank During World War II

The State Bank's work during the war may be divided into two periods: (1) the period of reorganizing the economy for war, and (2) the period of expanding the war economy.

The first period is from the start of the war to spring 1942. In this interval the State Bank's most important work was to provide an uninterrupted supply of cash for expenses connected with mobilizing the army, evacuating people and industry to the east, developing a network of State Bank branches in the field, and stimulating by means of credit the conversion of enterprises and cooperative artels for work on war contracts and the mastery of new kinds of production. With regard to the resources of the State Bank, this period was characterized by a sharp reduction in the balance of budgetary funds in State Bank accounts and a large increase in the balances of collective farm current accounts, caused primarily by the increase in prices of agricultural products on the collective farm market. It is understandable that this period was very difficult for the State Bank, because of (1) the growing demand for currency, and (2) the extremely disorganized state of document transfers and settlement payments. The latter situation was caused by the movement of goods to the front and to the east, large-scale readdressing of freight in connection with the evacuation of purchaser enterprises, and long freight delays en route, which frequently resulted in losses of goods. All this resulted in considerable deterioration of contract, payment, and credit operations. The amount of overdue indebtedness of economic organizations on State Bank loans had almost doubled by 1 January 1942 as compared with 1 January 1941.

The second period in the work of the State Bank corresponds to the period of the development of a smoothly functioning war economy. This, in turn, may be divided arbitrarily into stages. The first stage, from spring 1942 to spring 1943, is characterized: (a) by the establishment of a system of bank control over settlement payments due to economic organizations for shipments to military agencies and units, and by the development of a clearing system among economic organizations; (b) by the extension of easy credit to evacuated enterprises, by supplying credit to workers' food supply offices set up in affiliation with enterprises, and by the use of credit to stimulate the production of consumers' goods and the procurement of food; (c) by measures to bring additional currency into the State Bank (organizing the receipt of deposits from private individuals, assisting the financial organs in the collection of funds from the population, utilizing local resources to expand trade and speed up the turnover of goods), and by improving the system of cash payments (inkasso) of the State Bank and of the bank's cash operations generally.

The second stage is from spring 1943 to the end of the war. It is characterized chiefly by the large-scale extension of easy credit for the reconstruction of liberated areas, by the improvement of currency circulation in the liberated areas, and by the re-establishment of a network of credit institutions there. In addition, a number of measures were taken which improved the country's currency circulation generally. A network of commercial stores was set up, which helped to lower market prices; a struggle was waged against arrears in wage payments for

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which the State Bank and economic organizations were responsible; banking service through the postal agencies was introduced for collective farms, etc. Finally in this period the State Bank organized the payment of the Red Army in territories where foreign currency was the medium of exchange.

Settlement Payments and Clearing Accounts

Settlement payments in 1941 - 1942 had grown very complicated. By the end of 1941 civilian freight traffic was thoroughly disrupted, and settlements for freight were in a very confused state. In connection with the frequent readdressing of freight caused by the evacuation of the purchaser economic organizations and because of the shortage of transportation facilities, large quantities of goods were unloaded en route. There were piles of "ownerless" freight in railroad stations and at wharves in the central and eastern parts of the country. On the balance sheets of purchaser economic organizations, amounts owed them for goods paid for but not received and amounts owed by them for goods received but for which the bill of lading was not received grew very large. On the balance sheets of supplier economic organizations amounts owed them for goods shipped but not paid for by the purchaser also increased considerably.

The State Bank was ~~proposed~~ proposed to help economic organization to clear this debtor-creditor indebtedness caused by the breakdown of settlements between suppliers and purchasers. The bank was required to help supplier organizations find the actual recipients of goods and those who had paid for the goods, as well as to take part in the distribution of "ownerless" goods unloaded en route and in the determination of their quality and price.

At first, the State Bank handled this unaccustomed work badly, and its balance sheet for 1941 showed large sums received from purchasers for unknown suppliers. In connection with this, there was also a tremendous increase in transactions between branches of the State Bank.

In the second half of 1941 and the first half of 1942, there was a sharp increase in the number of refusals of purchasers to pay for goods received, because economic organizations frequently received unordered goods shipped by suppliers from the threatened areas, and because of the frequent refusals of agencies of the military establishment and military units to meet demands for payment. The trouble was that the bills of lading were sent by supplier organizations to offices of the military establishment direct, by special mail, without going through the State Bank. Frequently, the bill of lading was received by the purchaser after the demand for payment, and agencies of the military establishment refused to pay for this reason. There were cases when agencies of the military establishment refused to pay because they lacked funds at the moment but justified the refusal on the ground of nonreceipt of bills of lading. Industrial enterprises and particularly local industry and craft cooperative arts experienced serious financial difficulties because of frequent delays in payment by agencies of the military establishment.

To regulate settlement payments between purchasers and suppliers, it was necessary to (a) straighten out the confusion in settlements caused by the evacuation of goods, large-scale readdressing of freight, and the evacuation of the suppliers or purchasers themselves, and (b) straighten out the settlements between industry and craft cooperatives and agencies of the military establishment.

In May 1942 the People's Commissariat of Finance and the State Bank, on the order of the Council of People's Commissars, suggested to purchasers that they pay for all freight received by them without bills of lading, the value of the freight being determined by a special commission including representatives of the financial agencies and the State Bank. It was also suggested that in cases where the supplier could not be located, the money for the goods should go to the state budget. At the same time, steps were taken to stop frequent refusals to pay by agencies of the military establishment and military units. It

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was suggested to suppliers that they send bills of lading and the documents provided for by supply contracts through the State Bank. An exception was made only for certain kinds of military freight for which the bills of lading went directly to the purchasers, by-passing the State Bank as before. Different periods were set for paying the bills received, 3 to 5 days for bills sent through the State Bank, and 5 to 10 days for bills received which had not gone through the State Bank. In January 1943 this system was extended to shipments addressed to the People's Commissariats of Aircraft Industry, Munitions, Defense Industry, Armaments, Tank Industry, and to some others which had heretofore received bills of lading by special mail. In addition, it was suggested to enterprises and establishments of these people's commissariats that they inform the bank of their refusals to pay, giving reasons for such refusal. Simultaneously, the State Bank system was required to strengthen control over purchasers so as not to permit refusals to pay without good grounds and to see that freight not paid for was taken care of.

All these measures helped to strengthen adherence to contract and payment regulations and to clear the great indebtedness on the balance sheets of economic organizations resulting from unwarranted refusals to pay, the receipt of shipments without bills of lading, and payment for goods not received. In particular, good results were attained in straightening out settlement payments between industry and the military establishment.

Thus, during the war the State Bank's work with respect to settlement payments was characterized primarily by measures to straighten out settlement payments for evacuated goods and with evacuated suppliers or purchasers, as well as straightening out settlements between industry, the military establishment, and war industry, and by efforts to contend with shipments for which no bills of lading were received. The problem of unwarranted refusals to pay and particularly the problem of deliveries without bills of lading continue to be among the questions vexing the State Bank at present.

Another characteristic of the State Bank's war work as a settlement center is the expansion of the clearing system. Before the war the clearing system was being introduced very slowly. The war and the accompanying confusion in settlement payments resulted in an increase in overdue payments of economic organizations to their suppliers and made it necessary for the State Bank to expand the clearing system, the best method of organizing settlement payments.

The clearing system was particularly successful in the heavy and defense industries. The number of clearing centers increased, particularly in these branches of industry and in the machinery industry. The proportion of clearing center settlements to total State Bank settlements for goods and services more than doubled. During the war the number of interblast clearing centers for individual branches of industry also increased. These make settlements between economic organizations located in different oblasts. In addition to clearing centers, periodic and single cancellations of counterclaims among economic organizations were introduced during the war.

The war called for greater centralization of the distribution of the nation's materials resources, which created the conditions for expansion of centralized clearing. Thus, in the heavy and defense industries, there developed central clearing centers attached to people's commissariats and main administrations which made settlements among the enterprises subordinate to them. In addition, the State Bank began to make centralized intracommissariat cancellation of counterclaims approximately twice a year. This settled, all at one time, the claims of enterprises and organizations of 18 to 20 people's commissariats against each other.

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Extending Credit to the Economy During the War

The war economy called for a number of changes in the system of short-term credit.

Beginning with the first days of the war, branches of the State Bank were authorized to issue enterprises and artels unlimited loans for settlements with persons being called into the army, and, later, for expenditures connected with the relocation of enterprises.

To assure flexible and uninterrupted credit for expenditures connected with war production, branches of the State Bank were given the right to change bank credit limits established by State Bank regulations.

At the beginning of 1942 favorable credit terms were introduced for evacuated enterprises being set up again in new locations. Repayment of their indebtedness to the State Bank contracted before evacuation was postponed until restoration. In addition, for 3 months after its restoration, an enterprise had the right to receive credit if it did not have enough working capital of its own or if its own working capital was unevenly distributed. These favorable credit terms helped economic organizations to escape serious financial difficulties resulting from evacuation.

In 1942, to improve the supply to workers of food and industrial goods, workers' supply sections (otdel rabocheho snabzheniya) were set up in affiliation with large enterprises. State Bank branches were authorized to extend these workers supply sections easy credit facilities. Credit was extended not only for working capital, but also for other operations, such as purchasing goods, procuring agricultural products, laying in seasonal stocks of vegetables, seasonal productional expenditures of their auxiliary enterprises, expanding the production of consumers' goods, etc.

The reduction in the variety of goods in the trade network and acceleration of goods turnover in connection with the ration card system and the goods shortage resulted in considerable leveling of the turnover speed of various groups of goods. In connection with this, a policy was adopted according to which credit was extended for the planned average turnover period. This considerably reduced the amount of unsecured indebtedness to the State Bank, which was constantly increasing because of the unrealistically long credit periods for certain goods which had turned over slowly before the war but which were sold comparatively quickly during the war.

In the beginning of 1944 the State Bank began to extend credit for current trade to trade enterprises not operated on the cost accounting principle (dining rooms, bakeries, food stores). The purpose of this credit was to further the development of the network of public eating establishments and auxiliary production. Finally, the policy of unrestricted credit was extended to cover all kinds of procurement by consumer cooperatives. However, because of the shortage of goods in the state and cooperative trade system, these measures did not result in any considerable increase in credit investment in trade.

During the war there was a considerable increase in opportunities for obtaining State Bank credits for expanding the production of consumers' goods from local raw materials and scrap, for developing decentralized procurement of agricultural goods, for fattening livestock, etc. For example, all trade organizations were authorized to obtain credit from the State Bank for the purchase of livestock and feed, for expanding gardens, organizing local salt industries, etc. Enterprises of local industry and craft cooperative artels were authorized to obtain credit for a period of up to one year for organizing the production of standard parts for housing and furniture. State Bank

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branches were given the right to extend credit of up to 50,000 rubles for a period of 3 years to economic organizations for the development of consumers' goods enterprises, without confirmation by the Industrial Bank and at its expense.

These are the main changes in the method of extending short-term credit to economic organizations in connection with the reorganization of the economy for war.

In spring 1943 the State Bank began extending large credits to industry in liberated areas. The highly favorable terms of that credit were as follows:

1. Trade organizations and enterprises of the public eating place network were given loans for a period of 3 months for the formation of the necessary minimum of their own working capital, and all goods coming into these organizations were received on a 30-day credit basis.
2. Industrial enterprises and craft cooperative artels received credit from the State Bank for a period of 3 months from the moment they started work again, regardless of the condition of their own working capital.
3. Pending special orders to the contrary, all economic organizations were granted postponement of payment of pre-occupation debts owed to the State Bank and other creditors.

This special credit assistance by the State Bank speeded the economic recovery of the liberated areas.

Mobilizing Resources for the Extension of Short-Term Credit

As has been previously stated, early in the war the budget surpluses from prewar years had to be used to finance growing war expenditures. Also mobilized for this purpose were balances in directors' funds, the free funds of long-term investment banks, economic organizations' surpluses of their own working capital, and other free resources of the economy. Since the funds were kept in accounts in the State Bank, mobilization of these resources, totaling more than 20 billion rubles meant a 20-billion-ruble reduction in the State Bank's own resources earmarked for credit. This resulted in a substantial change in the composition of the receipts side of the State Bank's credit plan, arising primarily from a large increase in the balances of settlement accounts belonging to economic organizations. This was caused by (1) the liberation of part of the funds of economic organizations previously tied up in surplus raw material and fuel stocks; (2) below-normal stocks held by some enterprises, because of nonfulfillment of delivery plans; (3) the increased profits of some enterprises, particularly war industry enterprises, as a result of higher labor productivity and reduced production costs; (4) curtailment of capital repair in enterprises, as a consequence of which part of the depreciation deductions earmarked for repair remained temporarily in special accounts in the State Bank. (Balances in special capital repair accounts in the State Bank are considered to be on the same footing with other balances in settlement accounts.)

The current account balances of collective farms also grew, despite the fact that the collective farms transferred part of the funds in their current accounts to the Red Army Fund.

Thus, the structure of the receipts side of the State Bank's credit plan changed during the war in the following way: budgetary funds were no longer the State Bank's resources for the extension of credit; the relative importance of the balances of budgetary organizations, specialized banks, State Insurance, and the savings banks in the resources of the State Bank declined, while the relative importance of economic organizations' settlement accounts and collective farms' current accounts increased substantially.

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Cash Operations of the State Bank During the War

The war required large expenditures involving cash payments and simultaneously caused a reduction in the volume of retail sales in state and cooperative trade. Under these conditions, and in the interests of currency stability, the currency-regulating apparatus was called upon to take steps (1) to increase receipts of currency into the State Bank and speed up the turnover of money, and (2) to reduce the flow of currency from the State Bank.

State Bank branches exercised control over local industry, craft cooperatives, and other enterprises producing consumers' goods from local raw materials and scrap. The production of such goods as furniture, toys, soap, bast fiber shoes, baskets, shoes, and clothes from utility waste, etc., developed considerably during the war in some oblasts (Ivanovo, Gor'kiy, Kirov, etc.). In addition, State Bank control over the work of industrial bases and wholesale trade bases was increased to accelerate the movement of goods into the retail network. In 1944 special stores for the sale of food and industrial goods at commercial prices were opened in Moscow and 14 other large cities. This helped to increase the flow of cash into the State Bank and to depress prices on collective farm markets.

At the end of 1942 the State Bank was authorized to accept private deposits of not less than 3,000 rubles. In addition, from the very beginning of the war, field branches of the State Bank accepted for deposit money belonging to service personnel.

To siphon off currency from collective farms, limits were established to sums which could be retained in kolkhozes. The receipt of money from collective farms far from banks was organized through the postal system, and the use of the State Bank as a payment agent in collective farm market transactions was expanded.

A great deal of work was done on diverting currency into the channels of the State Bank. The role of the State Bank as an agent for currency payments in rural areas was expanded to include the collection of the War Tax from the peasantry and the collection of voluntary payments and of special donations to the Red Army Fund. Trade organizations were consolidated to speed the collection of receipts. Control over stores' small-scale wholesale business and economic organizations' adherence to cash regulations was strengthened. Much was also done to improve the cash operations of the State Bank, making it possible to receive and process in a short time large sums of money received from the population for the construction of tanks and airplanes, for assistance to liberated areas, etc.

Steps were taken not only to increase the flow of currency into the State Bank, but also to economize on the expenditure of currency. Noncash transfers of funds to servicemen's families were organized through banks in the field. This made it possible to reduce cash payments to service personnel in military units.

The State Bank's disbursement of currency to enterprises and establishments for administrative and travel expenses was considerably curtailed, and close supervision of their expenditure of currency was set up. This resulted in a substantial reduction in administrative expenditures as compared with prewar.

Control over the payment of wages in enterprises was also strengthened.

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State Bank Control by the Ruble Over Economic Organizations

In the difficult initial period of the war, the operations of credit, payments, and contracts greatly deteriorated. At first, the State Bank's efforts to straighten out the difficulties fared badly, and as a result indebtedness of economic organizations to the State Bank and to supplier organizations continued to grow. At the beginning of 1942 the State Bank system began to take more effective measures. In the case of enterprises violating the principle of cost accounting, delinquent in their obligations to the State Bank, and failing to achieve the qualitative and quantitative goals set for them, credit penalties were applied, up to denial of all credit. A special effort was made to do away with the situation in which the capital of economic organizations was tied up in excess stocks or in goods for which they had absolutely no use.

Of great assistance in solving this problem was the authority given in July 1941 (a) to people's commissars to distribute and redistribute all materials resources, including fixed assets, among enterprises, and (b) to enterprises to sell surplus materials through marketing organs without permission from the people's commissariat. Simultaneously, there was a redistribution of the enterprises' own working capital among enterprises subordinate to the same commissariat. At the beginning of the war the people's commissar was given the right to use funds from the settlement accounts of enterprises subordinate to him to pay the overdue debts (to suppliers) contracted by other enterprises of his commissariat. The payments situation was also improved by the previously discussed measures taken in spring 1942 to straighten out the settlement payments of enterprises with military agencies. This made it possible for enterprises to free considerable funds tied up in debts owed them by agencies of the military establishments, and in turn to settle with their own suppliers. Finally, intercommissariat and intracommissariat cancellations of counterclaims, begun by the State Bank at the beginning of 1943, helped to reduce overdue payments to suppliers.

As a result of all these measures, as early as the beginning of 1943, nonpayments to the bank and to suppliers by economic organizations declined considerably in comparison with the first year of the war.

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