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CENTRAL INTELLIGENCE AGENCY

INTELLIGENCE MEMORANDUM NO. 143 31 March 1949

SUBJECT: Soviet All Union Budget for 1949

1. Summary

The largest budget in the history of the USSR was adopted by the Supreme Soviet 15 March 1949 for the calendar year of 1949. The highlights of this budget may be summarized as follows:

a. The total planned budgetary expenditures of 415 billion rubles represent an increase of 13% over 1948, with the greatest percentage of increases assigned to "mechanization" of Agriculture, "capital construction", "maintenance" of the Armed Forces, and Social Cultural measures.

b. The proposed pattern of expenditures strongly suggests accelerated efforts toward the expansion of heavy industry.

c. The budget message reveals continued organizational inefficiency and waste, singling out for its criticism construction enterprises which are the weakest link in the Soviet economy.

d. Shortage of sufficient capital for the implementation of the ambitious industrialization program is indicated by the intensified economy drive demanding increased production, lowered costs, elimination of subsidies, placing state enterprises on self-supporting and expanded profit-making basis, and increasing public subscription for state loans.

e. The bulk of the state revenue of 446 billion rubles will be raised through further increases in the already heavy direct and indirect taxation. In terms of average monthly wages, each gainfully employed person in the USSR must contribute nearly 7 months' labor to support 1949 government expenditures.

2. Analysis of Appropriations

a. National Economy

While there has been only a nominal increase of 3.4% in the total budgetary allocation for this category, it is significant to observe a noticeable shifting of funds into capital construction and agricultural programs. Thus, the former category is scheduled to receive a total of 106 billion rubles against 66 billion in 1948, an increase of 60%. This increase is expected to be accomplished by a budgetary appropriation of 80 billion rubles (increase of 40%) and reinvestments by state enterprises from profits

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of 26 billion rubles (increase of 200%). This extraordinary allocation, together with the planned 40% increase in added working capital, indicates increased emphasis on industrial development. It will furthermore provide substantial funds for accumulation of strategic inventories.

It is significant that the expenditures for financing of agriculture have been increased by 60% to a total of 33 billion rubles, a major part of which is to be directed towards "mechanization". This would imply a substantial development of tractor plant capacity easily convertible to combat vehicles production. Furthermore, mechanized agricultural equipment, such as trucks and tractors, will be readily available for military use.

b. Armed Forces

The 1949 military appropriation of 79 billion rubles is the first publicly announced increase since 1945. It has been justified by the "war preparations" in the United States and the United Kingdom. In comparison with the war years, the 1949 appropriation represents 85% of direct military expenditures for 1941, 73% of 1942, 63% of 1943, 57% of 1944, and 62% of 1945.

While the admitted increase in direct expenditures reflects a rise of 19% over 1948, preliminary estimates of both direct and indirect expenses show an increase of 33%. In this estimate, the military allocation in 1949 will represent about 40% of the total budgetary appropriations, as compared with the estimated 30% in 1948.

Preliminary Estimates of Soviet Military Budget

	in billions of rubles	
	1948	1949
Announced expenditures	66	79
Concealed items:		
New construction for industrial support of armed forces	10	15
Material support provided by various ministries	15	20
From Education and Health appropriations including scientific research	12	22
Security organs performing military and paramilitary functions, including military intelligence	17	17
Strategic stockpiling	5	12
Total estimates	125	165

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In addition, it is essential to consider the following:

(1) Benefits accruing to the Soviet military potential from Satellite production for Soviet military account, reparations of a military nature, and requisitions for maintenance of occupation forces;

(2) Low per capita cost of maintenance of armed forces, as judged by Western standards, permitting utilization of a larger proportion of military funds for armaments and supplies;

(3) The reasonable assumption that the "military" ruble will purchase greater amount of equipment under the state-controlled economy than would a similar amount in the West.

c. Social and Cultural

Social and cultural expenditures have been raised by 12%, purportedly for expansion of "technical training". This would indicate an intensified program of industrial training and scientific research in secondary, special, and higher educational establishments.

d. Revenues

As customary, the new budget is expected to be balanced with a surplus of about 30 billion rubles. The major sources of revenue will be derived from turn-over and direct taxes and from a considerable increase in profit taxes. In spite of the expected surplus, the public will be "asked" to subscribe to a new state loan equalling the amount of such surplus.

This would indicate that with the mounting taxation burden and curtailed purchasing power through forced savings, there can be no appreciable improvement in standard of living in the Soviet Union in the immediate future.

3. Comparison with US Budget

Actual conversion of the budget figures into US dollars is misleading. At the official rate of 18.87 cents per ruble, the Soviet total expenditures will reach $78 billion, of which military spending will account for $31 billion. Although the real value of the ruble is an unknown quantity, it is estimated that the purchasing power of the "budgetary" ruble is probably not more than 10 cents, thus making the above figures $41.5 billion and $16.5 billion, respectively.

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However, it is more significant to note that in terms of over-all effort, the Soviet budget will absorb approximately 75% of the total national income and the military about 30% of it.

The US budget of $42 billion for the fiscal year 1950 will absorb about 18% of the national income, while military expenditures of $14 billion will represent only about 6% of it.

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Comparative Tabulation of 1948 and 1949 USSR Budgets

In billions of rubles

Estimates of Expenditure	1948 Actual	1948 % of Total	1949 Budget Planned	1949 % of Budget	% of Increase over 1948
Total expenditure	368.8	100%	415.4	100%	13
Financing of Nat'l Economy	147.5	40	152.5	36.7	3.4
Armed Forces	66.3	18	79.1	19	19
Social-Cultural	105.6	29	119.2	28.7	13
Administration Exp.	13.1	3	13.7	3.3	4.6
Unitemized	36.3	10	50.9	12.3	
Revenue					
Total	408.4	100%	446	100%	9
Sources of revenue:					
Surplus of prev.yr.	24	5.8	39.6	8.9	65
Turnover tax	247.5	60.4	262.2	58.8	6
Profit taxes	26.8	6.6	33.9	7.6	27
Direct taxes	33.2	8.2	36.5	8.2	10
State Loans	23.9	5.8	31.1	6.8	33
Unitemized	53.1	13.2	42.7	9.7	

Allocations for the National Economy

In billions of Soviet rubles

	1948 Actual	1948 From Budget	1948 From Profits	1949 Total Estimate	1949 From Budget	1949 From Profits	% Increase Over 1948
Total Natl. Economy	162	147.5	14.5	189.9	152.5	37.4**	19
Capital Construction	66	57.2	9	105.5	79.8	25.7	59
Other Industrial	na	na	na	na	na	na	
Agricultural	20.5	20.5	—	32.7	32.7	—	60
Transp. & Commun.	14.3	14.3	na	na	na	na	na
Increase in Working Capital	17.1	na	na	23.6	10.1	13.5	40
Trade & Provisions	4.1	4.1		na	na	na	
(Admin. Expenses	17	17	—)*	(17.6	17.6	—	4*)
Unitemized	59	51.4	5.5	28.1	29.9		

* Included in Nat'l Economy total and distributed into various sub-categories.
**Items add up more than the total; however the figures are based on the budget message.

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