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# **The Soviet State Budget Since 1965**

**A Research Paper**

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### *Preface*

This paper surveys the major revenue and expenditure patterns of the USSR state budget from 1965 to 1977. It relates budgetary appropriations and receipts to changing Soviet economic priorities, and explains how the budget's role in the state financial system has evolved since the economic reforms of the mid-1960s.

The research for this paper relied primarily on Soviet sources, particularly monographs by Soviet economic and financial experts, the budget speeches at the annual meetings of the Supreme Soviet, and the monthly journals of the Ministry of Finance (*Finansy SSSR*) and the State Bank (*Dengi' i kredit*). The statistical data base was developed from *Narodnogo khozyaistvo SSSR*, annual editions, and *Gosudarstvennyi byudzheth SSSR i byudzheti soyuznikh respublik 1966-1970 and 1971-75*. These sources were supplemented as appropriate by the small but specialized Western literature on the Soviet budgetary system. This paper reflects information received as of 1 December 1977.

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### Recent Developments

When Leonid Brezhnev and Aleksey Kosygin assumed power in 1964, they inherited economic problems that continue to plague the Soviet Union even today. These problems included a slowdown in the rate of economic growth, a severe disproportion between resources allocated to investment and defense and those allocated to consumption, and low productivity in both industry and agriculture. In response, the new leadership launched a four-pronged strategy:

- Upgraded substantially the priority given to consumer welfare, in goods, services, and real incomes.
- Revised national spending priorities, giving added emphasis to agriculture—a key element in consumer welfare.
- Instituted general price revisions that raised industrial and agricultural prices but held the line on retail prices for most consumer necessities.
- Introduced economic reforms that affected the ways in which producing enterprises were managed and financed.

The Soviet state budget, as the principal mechanism for distributing national financial resources, has been the key instrument through which the leadership has implemented this strategy. The results are reflected in significant changes in the distribution of budget incomes and expenditures and their trends.

### Revised Spending Priorities

The relatively higher priority accorded consumption over the past dozen years is reflected in state budget outlays in a number of ways. Since 1965, net budget allocations<sup>1</sup> to consumer-ori-

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<sup>1</sup> Total allocations from the budget, less payments to the budget from profits.

ented sectors—particularly agriculture—have more than tripled, while net allocations to industry and construction—the key producers of investment and defense goods—have remained relatively stable. Agriculture was scheduled to be a net recipient of 17.2 billion rubles in 1977, compared with 5.2 billion rubles in 1965. In addition to large investments, the government has sought to boost food production by substantially raising procurement prices paid to farmers, while maintaining stable retail prices for consumers. As a consequence, the state budget has financed rapidly growing subsidies to the food processing industries, particularly in respect to meat and dairy products. These subsidies rose from 5.5 billion rubles in 1965 to over 19 billion rubles in 1976 and now constitute over 8 percent of total budget outlays.

In addition to these consumption-reflected outlays, the budget has financed rapidly growing expenditures on a variety of social welfare measures. Since 1965, outlays for education, health, and cultural activities nearly doubled, reflecting in part the substantial wage increases granted to workers in these sectors. Budget expenditures on social insurance and related welfare programs rose two and a half times, reflecting substantial increases in pensions and the introduction of a new program of family allowances introduced in 1974. In addition, the state budget now finances a part of the cost of new pension and welfare programs for collective farmers, which were introduced in 1964 and expanded in 1970. Allocations to these programs rose from 0.4 billion rubles in 1965 to 2.8 billion rubles in 1976.

### Economic Reform

The general economic reforms launched in 1965, along with subsequent modifications, made a number of changes in the system of organizing, managing, and financing the producing enterprises. The purpose of the reforms was to raise

the efficiency of resource use, particularly in the industrial sector. To this end, (1) enterprises were given greater financial autonomy and decision-making authority; (2) profits and the profit rate were made important criteria in the system of incentives; (3) a charge was imposed for the use of enterprise capital—formerly largely an interest-free grant—and enterprises were to finance most of their investment out of retained profits; (4) prices were increased so as to raise the profit rate and facilitate self-finance; and (5) enterprises were to be organized into various types of associations, which were expected to finance their activities from internal profits, a principle ultimately to be extended to the industrial ministries.

These general economic reforms had an impact on both budget revenues and budget expenditures, with the most pronounced impact occurring during 1966-70. With respect to revenues, payments from profits of state enterprises replaced the turnover tax as the most important source of budget income. This result stemmed from the increased profit allowances included in prices in the 1967 price reform, while the share of turnover tax in retail prices was reduced as a consequence of the government's policy of holding the line on most retail prices for consumer goods. Also, profits now flow into the budget through three channels rather than one—payment of the capital charge, fixed (rent) payments primarily from the extractive industries, and the so-called "free remainder" of profits remaining above those that enterprises are explicitly permitted to retain for self-finance and similar purposes.

With respect to expenditures, the reforms sharply reduced the share of investment financed from the budget; in respect to total centralized state capital investment it fell from 61 percent in 1965 to 47 percent in 1970, after which it fluctuated between 47 and 49 percent. Besides investment, the reforms required enterprises to finance most of their own working capital and some other outlays that formerly would have required budget grants. Reflecting the increasing financial independence of enterprises, the budget's share in the total financial resources of enterprises in industry and construction fell from 51 percent in 1965 to 37 percent in 1969; since

then it has fluctuated between 37 and 40 percent. The main reasons for the stability of the budget's role in enterprise finance, after its initial diminution, are probably to be found in (1) rapidly rising costs, which have led to falling profit rates in the raw materials and extractive industries, necessitating budget aid, and (2) substantial decreases in machinery prices in 1970-73, which reduced the potential for increased financial independence in that sector.

Aside from the enterprise level, the reform's intent to extend the principle of self-finance has been slow to be implemented. With the impetus of a Party-Government Decree in March 1973, however, the move to group enterprises into production associations and to group associations and enterprises into larger, financially autonomous "industrial associations" has picked up speed. As of 1 April 1977, there were 3,450 such associations, which accounted for 45 percent of total industrial output.<sup>2</sup>

While the production associations are financially autonomous, few of the industrial associations, apparently, have achieved that status as yet. Extension of full financing to the ministry level is still in an embryonic stage. Under this approach, the ministry finances all of its activities, including investment and its own administrative outlays, from the profits of subordinate enterprises, paying into the budget only a fixed share of these profits. Only one all-union ministry—the Ministry of Instrument Making, Automation Equipment, and Control Systems—and several republic-level units have been functioning under this system. Recently a decision was made to add three all-union machinery ministries to this list, and preparations are under way to add others.<sup>3</sup>

The extension of self-financing to all industrial ministries would substantially diminish the budget's role as a distributor of financial resources for this sector. However, adoption of self-finance will probably be slow in implementation, because of bureaucratic opposition and because profit levels in many ministries are inadequate. In this area, as in others, the role of the budget will be affected to an important extent by the nature and timing

<sup>2</sup> "Povoishat deistvennost khozrascheta," *Planovoye Khozyaistvo*, No. 8, 1977, p. 24.

<sup>3</sup> *Ibid.*, p. 26.

of future price reforms, which currently are under discussion.

### Scope of the Budget

#### Central Role

The Soviet state budget is compiled by the Ministry of Finance. It is a consolidated budget that includes the all-union as well as the republic and local government budgets. It distributes a major portion of the national product within investment, defense, and consumption. The budget provides funds for capital investment, higher education, health, recreation, pensions, and many other activities that are usually financed largely from the private sector in Western economies.

The budget, the central component of the overall state financial plan, reflects in value terms the physical priorities of the annual economic plan. Both the plan and the budget are presented and approved at the end-of-year meeting of the Supreme Soviet. The financial resources are then allocated to the subordinate agencies, and the expenditures are monitored by the Ministry of Finance and the State Bank.<sup>4</sup>

#### The Budget as an Economic Indicator

While general economic policies are corroborated by published budget data, budget data alone shed little *advance* light on new directions in the economy. The kinds of budget statistics that might signal key economic policy shifts are not announced—for example, outlays for the light, food, and other consumer goods industries; investment in defense industries; and the functional distribution of science funds.

In addition, there are serious deficiencies in the reliability of the published budget data. The explicit defense budget in particular is virtually useless as an analytical tool; actual defense outlays are estimated to be perhaps three times greater than announced. The decline in the

<sup>4</sup> An excellent detailed analysis of the state budget and its role in the state financial system is found in Daniel Gallik, et al., *The Soviet Financial System: Structure, Operation and Statistics*, US Department of Commerce, International Population Statistics Reports, series p-90, No. 23, 1968.

announced defense budget during the 1970s, moreover, is inconsistent with the observed expansion of Soviet strategic, theater, and naval strength. (See the section on "Defense," below).

In contrast to defense expenditures, the Soviets provide considerably more detail on the financing of social and cultural programs—although a minuscule amount by Western standards. Financial policy in these less sensitive areas of national policy is more fully reflected in the published budget. Here as elsewhere, however, the analytical utility of the budget data is constrained by several factors:

**Aggregation.** The annual budget speeches and statistical handbooks provide little detailed information on the planned and actual budgets. The handbooks, for example, include only three to five pages of highly aggregated budget information. In comparison, other Communist states—Poland, for example—publish considerably more data, especially on such critical policy areas as investments, defense, subsidies, foreign trade, and science.

**Unidentified Categories.** Large sums are included in the budget as unspecified expenditure and revenue residuals. The scope of these rapidly growing categories can only be suggested.

**Ambiguity and Changes.** Budget methodology changes have never been thoroughly explained and are rarely announced. For example, at least three different science budget series have been published since the early 1960s, with little or no explanation.

**Incompleteness.** Although it comprises more than 50,000 local and republic budgets as well as the all-union outlays, the state budget is only *one* part of the state's consolidated financial plan, albeit the largest.<sup>5</sup> In several important areas, notably investment and science, the budget's expenditure role has been sharply reduced, further limiting its analytical usefulness.

<sup>5</sup> The consolidated financial plan is compiled by the Financial Department of the State Planning Committee (Gosplan), probably with the assistance of the Ministry of Finance. The plan reflects the resources of the state budget, the financial accumulations of state enterprises and organizations, and other centralized funds. Almost no details have been made available on the plan.



## Expenditures

From 1965 to 1976, total expenditures from the state budget more than doubled, and grew at an average annual rate of 7.6 percent (see table 1). Like most developed Western nations, the USSR's actual budgetary expenditures have generally exceeded planned outlays. The Soviet deviation from plan, however, has been small, averaging only 3 percent a year, and only once—1970—did it exceed 5 percent. Apparently, above-plan revenues have prompted upward revisions in the budget expenditures. Above-plan outlays may also mean that budget financing has not been supplanted by the intended fuller use of bank credits and enterprise self-financing (as called for in the 1965 economic reforms). In any case,

Soviet adherence to planned budget expenditures is remarkable by Western standards and results from the enormous amount of centralized control. Rigid control by state financial organs over prices, wages, and financial allocations has enabled planners to avoid deficit budget financing, serious inflation, and other problems faced by market economies.

Economic organizations in the USSR are not equally dependent on the state budget. Some budget appropriations support institutions almost completely dependent on the budget for funds—for example, schools and hospitals, military installations, and state agencies. These institutions are financed through the categories Social-Cultural Measures (SCM), Defense, and Administration,

Table 1

### USSR: Expenditures of the State Budget<sup>1</sup> Selected Years

	Billion Current Rubles				
	1965 Actual	1970 Actual	1975 Actual	1976 Actual	1977 Plan
Total .....	101.62	154.60	214.52	226.7	238.73
Financing the national economy .....	44.92	74.55	110.70	118.5	123.39
Industry and construction .....	20.99	30.53	47.01	NA <sup>2</sup>	49.1
Agriculture and procurement .....	6.77	12.37	19.08	NA	19.4
Trade .....	2.27	6.26	4.43	NA	4.4
Transportation and communications .....	2.83	3.11	4.96	NA	5.3
Municipal economy and housing .....	4.23	6.46	8.80	NA	9.2 <sup>3</sup>
Residual .....	7.82	15.82	26.42	NA	36.0
Social-cultural measures .....	38.16	55.94	77.04	80.7	83.85
Education, science, and culture .....	17.51	24.77	32.79	33.8	34.8
Health and physical culture .....	6.67	9.28	11.47	11.8	12.0
Social welfare measures .....	13.98	21.89	32.78	35.1	37.1
Defense <sup>4</sup> .....	12.78	17.85	17.43	17.4	17.23
Administration <sup>5</sup> .....	1.28	1.66	2.01	2.1	2.03
Loan service .....	0.10	0.10	1.10 <sup>3</sup>	1.3 <sup>3</sup>	1.30
Budgetary expenditures residual and reserve funds of the Councils of Ministers <sup>6</sup> .....	4.38	4.50	6.24	6.7	10.93

<sup>1</sup> For complete data for 1965-77, actual and plan, see table A-1 in the appendix. Because of rounding, components may not add to the totals shown.

<sup>2</sup> Not available.

<sup>3</sup> Estimated.

<sup>4</sup> Probably excluding outlays for most of military research and development (R&D), space, internal security forces, procurement of major weapons systems, and possibly other defense related items.

<sup>5</sup> Including financing for all local and central government agencies, such as planning and financial bodies, ministries, government departments, and the courts and judicial organs.

<sup>6</sup> The budget *plan* measure includes Reserve Funds of the Councils of Ministers. Presumably, these are normally reclassified under the functional budget categories in the *actual* budget; that is, the *plan* measure includes both the Reserve Funds and the expenditures residual. The *actual* measure includes only the expenditures residual.

respectively. In contrast, the category Financing the National Economy (FNE) deals basically with state industrial, construction, agricultural, trade, and other enterprises that are independent accounting units operating on the principle of economic accountability (*khozraschet*).

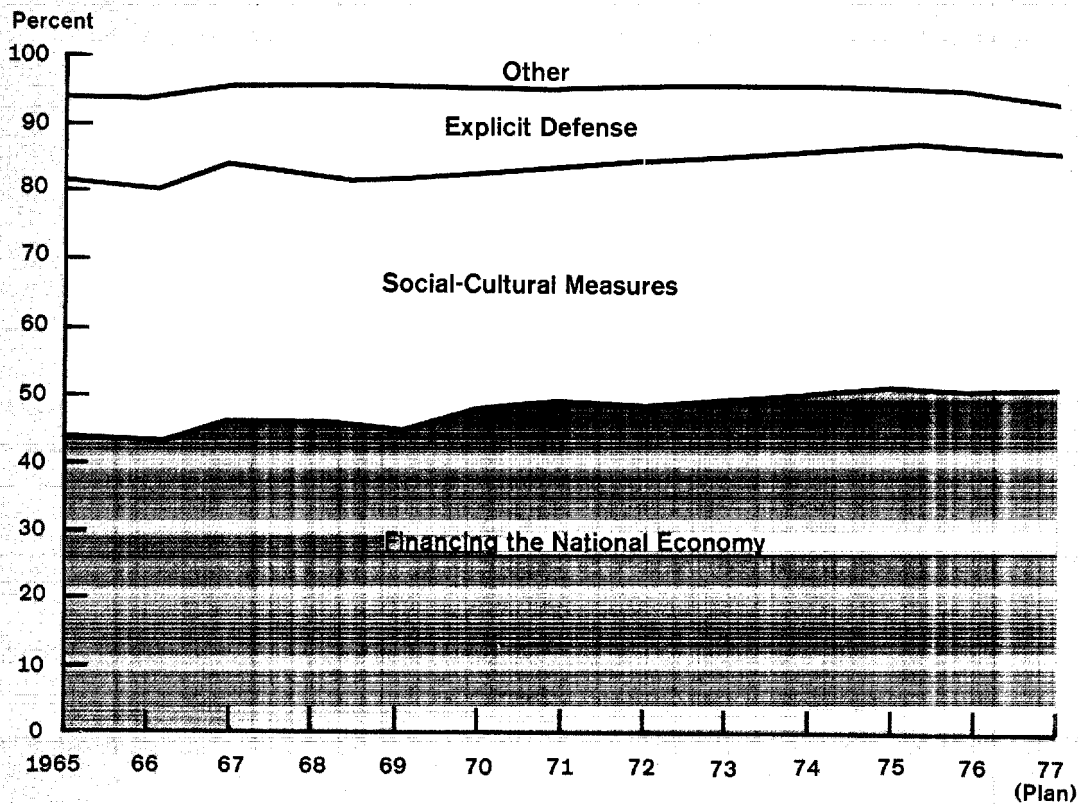
The distinction between *khozraschet* and budget-dependent institutions and organizations is not always clear-cut. Although theoretically self-supporting, with their own settlement accounts in the State Bank (Gosbank) and independent balance sheets, *khozraschet* enterprises can still receive support from the budget for investment, working capital, subsidies, and other purposes—even when they make a profit.

Under Brezhnev, there have been several notable trends in the distribution of major budget outlays (see figure 1):

- Expenditures under FNE constitute the largest single block of budget outlays, rising from 44 percent of budget expenditures in 1965 to 52 percent in 1976. Moreover, non-budgetary sources of financing FNE have also grown, and have represented a majority of the planned sources of financing FNE since 1969. These trends indicate that FNE is receiving a steadily growing share of all state financial resources.
- The share of the budget allocated for Social-Cultural Measures (SCM) has declined

### USSR: Distribution of State Budget Expenditures

Figure 1



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slightly, from 38 percent to 35 percent during 1965-76. Nonbudget resources of enterprises and organizations, trade unions, and collective farms have recently played a greater role in financing educational, scientific, cultural, and other activities. However, the state budget still provides over three-fourths of the total all-source funding for SCM expenditures.

- Explicit defense outlays have dropped from 12.6 percent of budget expenditures in 1965 to 7.7 percent in 1976. However, the announced defense budget could not cover all Soviet defense programs. For example, CIA estimates that Soviet defense spending for 1976—defined to include roughly the same range of activities encompassed in the US defense budget—totaled 52 billion to 57 billion rubles (when measured in constant 1970 prices), compared with the announced defense budget of only 17.4 billion rubles (in current prices).<sup>6</sup> The difference was financed presumably from other nondefense budget categories (primarily FNE and science) and possibly from nonbudget resources as well (for example, a portion of military-related science). (See the section on “Science,” below).

- Major unidentified budget categories—the FNE and Budgetary Expenditures Residuals—have risen under Brezhnev and could reach 20 percent of total budget spending in 1977. The residuals appear because the regime wishes to conceal certain types of expenditures (defense-related outlays, for example) or because it feels that publication of the residual outlays would serve no useful purpose. In any event, while some of the components of the residuals can be tentatively established, the size of most of the individual items cannot be estimated with confidence.

### Financing the National Economy

FNE now accounts for more than one-half of total budget expenditures compared with 44 per-

<sup>6</sup>US Congress, Joint Economic Committee, *Allocation of Resources in the Soviet Union and China—1977*, Washington: US Government Printing Office, 1977, p.7.

cent in 1965. Among the expenditures under FNE, financed partly or in full by the budget, are the following:

- Capital investment.
- The expansion and covering shortages of working capital.
- Capital repair.
- Certain operational expenses not covered completely in the cost of production, such as geological survey, product designing, preparation of test models (prototypes), and the introduction of new techniques.
- Subsidies for the sale of agricultural and other products and for enterprises with planned losses.
- Formation of “state material reserves,” which consist of (1) stockpiles of goods kept for use in case of national emergency and (2) stockpiles of materials used to supplement or replenish stocks of working capital (inventories) at production units.

In keeping with the 1965 economic reform’s encouragement of enterprise self-financing, budget funds fell as a percent of planned all-source FNE—from 56 percent in 1965 to 49 percent in 1970 (see table 2). Since 1970 it has remained at about this level. In general, budget financing of investment and working capital is supposed to be reserved for newly created enterprises.

The shift from budget to nonbudgetary financing was especially pronounced in industry and construction, where the share of planned financing from budget funds fell from 51 percent in 1965 to 37 percent in 1969 before leveling off. The budget’s share of planned FNE funding for agriculture has been far more volatile, ranging from a high of 56 percent in 1965 to a low of 44 percent in 1972.

Capital investment is the largest individual outlay of FNE—about one-third of the total—but it has declined in importance since 1965. Enterprises are supposed to finance increasingly their new construction from their own retained profits, from bank loans, and from amortization allowances (see table 3). During 1969-76, for example, the budget plan provided 47 to 49 percent of

Table 2

USSR: Planned Expenditures for Financing the National Economy (All-Source Financing)<sup>1</sup>  
Selected Years

	Percent				
	1965	1970	1975	1976	1977
Total .....	100	100	100	100	100
From the budget .....	56	49	49	50	49
From other sources .....	44	51	51	50	51
Industry and construction					
From the budget .....	51	37	38	40	38
From other sources .....	49	63	62	60	62
Agriculture and procurement <sup>2</sup>					
From the budget .....	56	49	47	49	47
From other sources .....	44	51	53	51	53
Trade					
From the budget .....	69	82	NA	NA	62
From other sources .....	31	18	NA	NA	38
Transportation and communications					
From the budget .....	35	23	24	25	26
From other sources .....	65	77	76	75	74
Municipal economy and housing					
From the budget .....	88	NA	NA	83	NA
From other sources .....	12	NA	NA	17	NA
Residual					
From the budget .....	78	NA	NA	NA	NA
From other sources .....	22	NA	NA	NA	NA

<sup>1</sup> For complete data, including values in rubles, for 1965-77, see table A-2 in the appendix.

<sup>2</sup> Excluding collective farms.

centrally planned state investment, compared with 61 percent in 1965. To make greater self-financing possible, product prices were raised in the 1967 reform and amortization rates were raised sharply in 1975.

In an effort to tighten control over investment resources, beginning in 1977 the state plan for capital investment will include investment funded from noncentralized sources such as enterprise funds for development of production.<sup>7</sup> Under this broader concept, the share of total investment financing provided by the state budget will fall to about 41 percent in 1977.

In the past decade, budget grants to enterprises for financing working capital have also been

<sup>7</sup>V. F. Garbuzov, "Byudzhet vtorogo goda pyatiletki," *Finansy SSSR*, No. 12, 1976, p. 13.

reduced in importance.<sup>8</sup> Enterprises have been instructed to rely more on nonbudget sources of working capital, such as short-term bank credits. "Own and equivalent" working capital—which includes budget grants, funds received from superior organizations, receipts from the sale of fixed assets, and other sources—has declined for the economy as a whole from 38 percent of the sources of working capital in 1965 to 27 percent in 1976.

#### Industry and Construction

Industry and construction, the largest category under FNE, accounts for about 40 percent of the total and roughly one-fifth of all budget expenditures. It grew at an annual average rate of 8.4 percent between 1965 and 1975 and then at a planned rate of 7.7 percent through 1977.

The largest single allocation is believed to be for centralized capital investment by the industrial ministries—about 10 billion to 12 billion rubles in 1975.<sup>9</sup> Other allocations are made for capital repair, for the expansion and covering of shortages of working capital, for operational expenditures not covered by the cost of production (for example, prototype development and testing), and for other outlays of both civilian and military nature.

A portion of the price subsidies for production and sale of meat, processed dairy products, and other food products probably is included in the all-union budget appropriation to the food processing industries. The remainder evidently is concealed in the union-republics' portion of the calculated residual under FNE.<sup>10</sup> The total of

<sup>8</sup>An excellent discussion of the sources and accounting of working capital is contained in *Structure and Accounting of Working Capital in the USSR*, US Department of Commerce, International Population Statistics Reports, series P-95, No. 70, 1972.

<sup>9</sup> Calculated on the basis of data in V. L. Perlamutrov and L. V. Braginsky, "Kreditno-finansovye richagi khozrascheta," *Ekonomika i organizatsia promyshlennovo proizvodstva*, No. 1, 1975, p. 62.

<sup>10</sup>The handling of the many kinds of subsidies in the state budget is a complex and poorly understood issue. The available information, moreover, often is subject to conflicting interpretations.

The above discussion of the handling of agricultural price subsidies is based in part on information from V. N. Maslennikov and V. M. Afremov, *Ekonomicheskiye metody opredeleniya rentabelnost v promyshlennosti*, Moscow, 1975, pp. 115-164, and V. N. Semenov, *Rol finansov i kredita v razvitiu selskogo khozyaistvo*, Moscow, 1973, pp. 248-264.

Table 3

USSR: Planned State Centralized Investment, by Source of Funds <sup>1</sup>

	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976
Billion Current Rubles												
Centralized investment												
from .....	38.7	40.6	41.3	43.6	52.5	54.4	64.0	67.0	70.5	78.0	85.4	88.3
Budget .....	23.5	22.8	22.2	23.1	25.5	25.8	30.3	31.5	33.7	37.2	40.5	43.6
Profit .....	4.4	3.8	NA	6.4	12.4	12.0	12.7	13.0	11.3	13.1	13.8	13.2
Amortization ..	9.2	10.4	NA	11.6	11.5	12.1	12.9	14.4	16.1	17.0	22.7	24.4
Other <sup>2</sup> .....	1.6	3.6	NA	2.5	3.1	4.5	8.1	8.1	9.4	10.7	8.4	7.1
Percent												
Share of centralized investment financed by the budget .....	61	56	54	53	49	47	47	47	48	48	47	49

<sup>1</sup> Including (1) additions to working capital of construction organizations and (2) outlays for project planning.

<sup>2</sup> For example, long-term credits and mobilization of internal reserves in construction.

these agricultural price subsidies increased from an estimated 5.5 billion rubles in 1965 to about 19 billion rubles in 1976.<sup>11</sup> This growth resulted from the leadership's policy of keeping the retail prices of staple foods unchanged while sharply increasing prices paid to farms for agricultural products. The difference between the state purchase price and the accounting price at which the food processing industry enters the product in its production costs is financed from the state budget.<sup>12</sup>

The changes since 1965 in the financing of industry and construction have reflected the leadership's attempt to maintain overall control of investment flows while permitting enterprises greater freedom in financing their operations. On the one hand, more than three-fourths of the state budget allocation to these sectors currently flows

from the all-union budget, compared with 38 percent in 1965. This development was a consequence of the recentralization of control over heavy industry and other important activities—located primarily in the RSFSR—that occurred soon after Brezhnev gained power. On the other hand, reliance on nonbudgetary sources of financing steadily grew from 49 percent of planned all-source financing in 1965 to 63 percent in 1969 and has stabilized subsequently at 60 to 64 percent. This pattern suggests that, while nonbudgetary sources for investments, such as enterprise profits and amortization deductions, have continued to grow, it has also been necessary in the 1970s to increase—in the sectors industry and construction—budgetary outlays for investments, price subsidies, and other activities primarily of an all-union significance (including some military-related activities).

#### Agriculture

The increased priority given agriculture under Brezhnev is reflected in budget allocations for the sector which increased from 7 billion rubles in 1965 to 19.4 billion rubles in 1977 (plan). Nevertheless, budget outlays have declined as a share of the total planned financing of this sector, from 56 percent to 47 percent during the same period.

<sup>11</sup> According to N. Glushkov, chairman of the USSR Council of Ministers' State Prices Committee, budget subsidies for meat and milk products in 1975 totaled "almost 19 billion rubles." *Pravda*, 8 February 1977, p. 2. These subsidies are scheduled to total 100 billion rubles during the 1976-80 plan period. See V. Garbuzov, "Finansovaya politika KPSS," *Planovoye Khozyaystvo*, No. 7, 1977, p. 17.

<sup>12</sup> V. N. Semenov, "Finansirovaniye selskogo khozyaystva," *Finansy SSSR*, No. 5, 1974, p. 45; also, V. I. Vesland, "Ob ekonomicheskoi prirode byudzhethnogo regulirovaniya raznits v tsenakh," *Izvestiya Akademii Nauk SSSR: serya ekonomicheskaya*, No. 5, 1975, pp. 66-67.

Table 4

USSR: Explicit Budget Outlays for Agriculture, by End Use <sup>1</sup>

	1966-70		1971-75		1976-80 Plan	
	(Billion Rubles)	Percent	(Billion Rubles)	Percent	(Billion Rubles)	Percent
Total .....	45.90	100	75.60 <sup>2</sup>	100	107.00	100
Capital investment <sup>3</sup> .....	23.41	51	42.36	56	62.06	58
Development of the basic herd	0.46	1	1.51	2	2.14	2
Increase in working capital .....	2.75	6	2.27	3	1.07	1
Operational expenses .....	6.89	15	11.34	15	14.98	14
Other <sup>4</sup> .....	12.39	27	18.14	24	26.75	25

<sup>1</sup> V. Semenov, *Ekonomicheskiye nauki*, No. 8, 1976, p. 46, and V. Semenov, "Finansy selskogo khozyaistvo v desyatoy pyatiletkye," *Finansy SSSR*, No. 6, 1977, pp. 21, 23.

<sup>2</sup> This figure presumably represented a preliminary estimate by Semenov of actual budget allocations to agriculture. According to more recent information, budget outlays during 1971-75 totaled 78.4 billion rubles.

<sup>3</sup> Including capital investment on state farms, land reclamation work at both state and collective farms, and other investment outlays.

<sup>4</sup> Including funds to help liquidate bank loans, allocations to cover losses from the sale of products and losses in housing and communal services, and numerous other end uses.

The rapid inflow of budget resources is largely the result of the continuing effort to stimulate farm output by increasing the financial health of agriculture in general and the state farms in particular. Higher procurement prices on major grains and dairy products and bonuses for above-plan sales to the state also reduced the need for direct budget subsidies to state farms.

The budget entry for agriculture includes funds for the Ministry of Agriculture, the Ministry of Procurement, and numerous other state agencies.<sup>13</sup> Funds are also included for the All-Union Farm Machinery Association (*Soyuzselkhoztekhnika*) which supplies state and collective farms with machinery, spare parts, fertilizer, and other production essentials. The prices paid by the farms for many of these products are subsidized indirectly through an appropriation to *Soyuzselkhoztekhnika*. The 1976 planned budget, for example, included 2.1 billion rubles in price subsidies for mineral fertilizers, tractors, combines, and other agricultural equipment sold to state and collective farms.<sup>14</sup>

<sup>13</sup> For example, the Ministries of Land Amelioration, Water Economy, and Forestry. V. V. Lavrov and K. N. Plotnikov, *Gosudarstvennyi byudzhet SSSR*, Moscow, 1975, p. 197.

<sup>14</sup> V. Semenov, "Voprosii finansirovaniya i kreditovaniya selskogo khozyaistvo," *Ekonomicheskiye nauki*, No. 8, 1976, pp. 53-54.

Like the other sectoral allocations under FNE, the largest portion of budget funds for agriculture goes to finance capital investment. Other end uses include the expansion of working capital, formation of livestock herds, land improvement, and other activities of the state farms (see table 4). In addition, both state and collective farms are assisted through budget financing of land reclamation work, research in the control of plant and animal diseases, and general overhead investment by the state.

Brezhnev's commitment in 1965 to raise the priority of the agricultural sector and thereby improve the consumers' diet is further evidenced by the sector's position as a net recipient of budget funds (see table 5). The 1965 budget allocation to agriculture was 5.2 billion rubles more than that sector's payments into the budget from profits. By 1975, however, this net position had jumped to 16.6 billion rubles, the result of the steady inflow of budget resources for investment as well as the leadership's policy of leaving greater profits at the disposal of the state farms operating on *khozraschet*.

#### Other Sectors

The other sectors announced under FNE (trade, transportation and communications, and

Table 5

USSR: Budget Redistribution of Funds  
by Major Branch of the Economy <sup>1</sup>  
Selected Years

	Billion Current Rubles				
	1965 Actual	1970 Actual	1975 Actual	1976 Plan	1977 Plan
<b>Industry and construction</b>					
Budget allocation .....	21.0	30.5	47.0	48.0	49.1
Payments from profits .....	19.0	37.5	46.3	44.3	50.3
Net contribution to the budget .....	-2.0	7.0	-0.7	-3.7	1.2
<b>Agriculture and procurement</b>					
Budget allocation .....	6.8	12.4	19.1	18.3	19.4
Payments from profits .....	1.6	2.3	2.5	1.9	2.2
Net contribution to the budget .....	-5.2	-10.1	-16.6	-16.4	-17.2
<b>Trade</b>					
Budget allocation .....	2.3	6.3	4.4	4.4 <sup>2</sup>	4.4
Payments from profits .....	0.7	1.3	1.9	NA	1.7
Net contribution to the budget .....	-1.6	-5.0	-2.5	NA	-2.7
<b>Transportation and communications</b>					
Budget allocation .....	2.8	3.1	5.0	4.9	5.3
Payments from profits .....	5.3	7.6	10.5	10.1	11.7
Net contribution to the budget .....	2.5	4.5	5.5	5.2	6.4
<b>Municipal economy and housing</b>					
Budget allocation .....	4.2	6.5	8.8	8.2	9.2 <sup>2</sup>
Payments from profits .....	0.9	1.6	2.5	1.6	1.8
Net contribution to the budget .....	-3.3	-4.9	-6.3	-6.6	-7.4 <sup>2</sup>

<sup>1</sup> For complete data for 1965-77, actual and plan, see table A-3 in the appendix. Because of rounding, components may not add to the totals shown.

<sup>2</sup> Estimated.

municipal economy and housing) typically account for less than 10 percent of budget expenditures.

Budget financing for trade rose from 2.3 billion rubles in 1965 to 6.8 billion rubles in 1973, subsequently declining to 4 billion rubles annually through 1977 (plan). Prior to 1974, the trade appropriation presumably covered both foreign and domestic trade operations and possibly material-technical supply as well.<sup>15</sup> The sharp drop in budget funds since 1973 suggests that the scope of this budget category has been redrawn. No infor-

mation on this change has been announced. Several activities that had been financed previously through the sectoral allocation to trade may now be included in the unexplained FNE residual, which rose in 1974 by roughly the amount of the 1974 reduction in trade.

Among the important end uses of budget funds for trade are working capital, investment, "the carrying out of foreign trade operations for exports and imports of goods,"<sup>16</sup> and subsidies. For example, a budget allocation covers a share of the losses from the sale of outmoded and irregular

<sup>15</sup> The State Committee for Material-Technical Supply (*Gossnab*) was created in 1965 to plan, allocate, and distribute materials and equipment to producer enterprises.

<sup>16</sup> V. A. Yevdokimov, *Kontrol za ispolnentyem gosudarstvennogo byudzheta SSSR*, Moscow, 1974, p. 160. Unfortunately, the Soviets have released little data on the definition and amounts of the budgetary appropriations for foreign trade.

goods at discount (1.9 billion rubles during 1971-75).<sup>17</sup>

Budget outlays for transportation and communications have risen gradually from 2.8 billion rubles in 1965 to a planned 5.3 billion rubles in 1977. Approximately 90 percent of these funds finance investment and other activities in the transportation sector. As a whole, the budget now provides only one-fourth of the total financing of transportation and communications (compared with more than one-third in 1965), illustrating the greater reliance on enterprise-retained profits and other nonbudgetary resources for investment financing and for working capital.

Budget outlays for housing (owned by local Soviets) and the municipal economy are contained entirely in the union-republican budgets. These appropriations have more than doubled since 1965, to an estimated 9.2 billion rubles in the 1977 plan. The municipal economy component covers city services (sanitation facilities, water, and sewer systems), maintenance on roads and bridges, street lighting, and other urban services.<sup>18</sup> The housing portion finances capital investment, capital repair and other activities in apartment complexes, warehouses, and supply organizations and supports warehouses and offices that are leased to other organizations. The housing appropriation also contains a state operating subsidy for current repair in housing and other purposes.<sup>19</sup> Budget funds for housing are supplemented by the resources of enterprises and collective farms which finance housing activities from profits.<sup>20</sup>

<sup>17</sup> Ye. N. Fonarev, "O sovershenstvovaniy poryadka formirovaniya i raskhodovaniya finansovykh resursov na utsenku tovarov," *Finansy SSSR*, No. 7, 1976, p. 41.

<sup>18</sup> In 1975, responsibility for urban subway systems was transferred from the city Soviets to the Ministry of Railroads. Presumably, budget funds for subways were also shifted from the Communal Economy line to the Transportation appropriation. See *Izvestiya*, 5 June 1975, p. 3.

<sup>19</sup> Z. Kh. Rusin and L. L. Aydinov, *Gosudarstvennyi byudzhet SSSR*, Moscow, 1969, p. 212, and Lavrov and Plotnikov, pp. 222, 226.

<sup>20</sup> In 1972, for example, 1.6 billion rubles from the profits of all enterprises and organizations was directed toward covering the losses of the housing and communal economies. See V. Garbuzov, "Gosudarstvennyi byudzhet 1972 goda i zadachi finorganov," *Finansy SSSR*, No. 1, 1972, p. 7.

### The Sectoral Residual Under Financing the National Economy

An FNE residual is calculated as the amount remaining after the several announced appropriations have been accounted for under FNE. The residual probably covers a specific but unpublished group of budget expenditures; it is neither a reserve (or balancing) account nor a budget entry whose components vary considerably from year to year. The residual is believed to include expenditures for:

- Additions to state material reserves (of both civilian and military-related goods).<sup>21</sup>
- Special accounts for price regulation (to cover enterprise losses due to unforeseen price changes).
- Any economic sectors, ministries, and agencies not included in the announced allocations under FNE (for example, Inturist). In addition, any budget subsidies on agricultural products that were not treated as subsidies to the food processing industry would probably be included in this residual.

The FNE residual is one of the fastest growing categories of the state budget, rising from 7.8 billion rubles in 1965 to 36 billion rubles in the 1977 plan. The residual now comprises about 15 percent of all budget expenditures.<sup>22</sup>

Western observers have long believed that defense-related outlays are concealed in the FNE residual.<sup>23</sup> This suspicion initially was kindled by the scarcity of information on the composition of the residual and more recently by the inconsistency between a declining announced defense budget and the expanding defense programs. (See the section on "Defense," below).

There are numerous hypotheses on the methods by which sizable defense-related activities could be concealed in the residual. For example,

<sup>21</sup> Before World War II, these funds were included in the allocation to the Administration of State Reserves under the Council of Peoples Commissars—today, the Main Administration of State Material Reserves under the Council of Ministers. There are no indications that these outlays have ever been part of the announced sectoral appropriations.

<sup>22</sup> In contrast, the FNE residual in the period before World War II and through the mid-1960s typically comprised only 5 percent to 6 percent of budget expenditures.

<sup>23</sup> CIA/ER 60-37, *The 1960 Soviet Budget*, Nov. 1960, p. 13.



if Soviet budget accounting considers military production as an investment-type good, some procurement of weapons and other materials could be financed logically from an FNE appropriation. These funds could be hidden in the residual by charging military production to state reserves.<sup>24</sup>

#### FNE, by End Use

Soviet budget statistics can give only a partial picture of the distribution of national output by end use, mainly because expenditures are fi-

<sup>24</sup> Writing in a journal of the Ministry of Defense, one Soviet writer has suggested that this kind of financial arrangement was in effect for the procurement of tanks prior to World War II. See G. Solyus, "Finansovaya sluzhba v velikoy otechestvennoy voynne," *Voyenno-istoricheski zhurnal*, No. 5, 1969, pp. 104-105.

nanced increasingly by nonbudgetary sources. It is possible, however, to make estimates of some of the major end uses of budget FNE appropriations, including investment, working capital, capital repair, subsidies, operational outlays, and "other expenditures." Because official Soviet statistics are not published in this form, the estimates in table 6 represent general orders of magnitude rather than precise sums.

The table shows that fully one-fourth of annual budget FNE during 1970-75 is unaccountable on a functional basis. Available data do not permit this exercise to be done for the immediate postreform years, but CIA estimates for earlier years indicate that between one-fourth and one-third of

Table 6

USSR: Budget Financing of the National Economy, by End-Use <sup>1</sup>						
	1970	1971	1972	1973	1974	1975
Billion Current Rubles						
Total, of which: .....	75	80	85	91	100	111
Investment <sup>2</sup> .....	25-27	28-30	29-31	33-34	34-36	37-39
Working capital .....	3-4	2-3	3-4	3-4	3-4	3-4
Capital repair .....	2-3	3-4	3-4	3-4	4-5	4-5
Subsidies <sup>3</sup> .....	17-18	18-19	19-20	20-21	21-22	22-23
Operational outlays <sup>4</sup> .....	4-5	7-8	8-9	8-9	9-10	11-12
Other expenditures <sup>5</sup> .....	18-24	16-22	17-23	19-24	23-29	28-34
Midpoint of "other expenditures" .....	21	19	20	22	26	31
Percent						
Midpoint of "other expenditures" as a share of financing the national economy .....	28	24	24	24	26	28

<sup>1</sup> Estimated. This table is based largely on V. A. Yevdokimov's unprecedented distribution of budget FNE funds to *khozaschet* enterprises and organizations. (Yevdokimov, p. 141). These data were supplemented as appropriate with information from other Soviet sources. Yevdokimov is the chief editor of *Finansy SSSR*, the monthly journal of the Ministry of Finance.

<sup>2</sup> Including centralized and decentralized capital investments.

<sup>3</sup> Including subsidies to retail trade system to cover losses, price subsidies to *Soyuzselkhoztekhnik*, and subsidies to the light and food processing industries for state purchase and sale of agricultural products.

<sup>4</sup> Budget funds for operational expenditures cover certain activities whose costs are not entirely included in the cost of production; for example, maintenance of waterways and hydrotechnical installations, geological survey work, prototype fabrication, test and evaluation, and sundry other expenditures.

<sup>5</sup> Including some civilian and military-related additions to state material reserves, subsidies to planned-loss enterprises, subsidies for foreign trade operations, compensation for wage reform expenditures in sectors of the national economy, and other measures.

FNE is unidentified when FNE is residualized by end use.<sup>25</sup>

Among the items in "other expenditures" are the maintenance and expansion of state material reserves, outlays for foreign trade operations (both import and export), expenditures for wage reform in certain sectors of the economy, gold purchases, starting outlays of various types for new enterprises, subsidies for planned loss enterprises, bonuses, and other outlays.<sup>26</sup>

The largest single item in the end use residual may be additions to state reserves (financed under an allocation to the Main Administration of State Material Reserves). These goods "include industrial, agricultural, transport, food and defense, and other types of reserves."<sup>27</sup> The defense-related reserves may include food and non-food items such as fuel and clothing. But, in addition, it is likely that "reserves of the means of defense which have a special character"<sup>28</sup> are financed under FNE and could include weapons. A plausible but unproved hypothesis is that procurement of some weapons is financed through the state reserves system.

### Social-Cultural Measures

Budget expenditures on SCM rose from 38.2 billion rubles in 1965 to 80.7 billion rubles in 1976, an average annual rate of 7.0 percent (see table 7). SCM covers a broad range of public services and activities: pensions, welfare payments, sick and maternity pay, education and medical services, recreation and cultural activities, and science.

Despite the steady growth of SCM funding from the state budget, its share in total budget expenditures has declined under Brezhnev, from 38 percent in 1965 to 35 percent in the 1977 planned budget. This development is explained by (a) the demands of the national economy as well as military programs, (b) the greater role of

<sup>25</sup> CIA/ER 60-37, p. 20. William T. Lee has examined recently this question of the FNE end use residual in his "Soviet Defense Expenditures," *Osteuropa Wirtschaft*, June 1976, pp. 118-122.

<sup>26</sup> Yevdokimov, pp. 141, 160; also Franklyn D. Holzman, *Financial Checks on Soviet Defense Expenditures*, Lexington, Mass.: D.C. Heath and Company, 1975, p. 90.

<sup>27</sup> A. V. Bachurin, *Finansy i kredit SSSR*, Moscow, 1958, p. 148.

<sup>28</sup> M. Z. Bor, *Balans narodnogo khozyaistvo SSSR*, Moscow, 1956, p. 97.

Table 7

USSR: Expenditures for Social-Cultural Measures in the State Budget<sup>1</sup>  
Selected Years

	Billion Current Rubles			
	1965	1970	1975	1976
Total .....	38.16	55.94	77.04	80.74
Education, science, and culture, <sup>2</sup> of which: ....	17.51	24.77	32.79	33.79
General education .....	8.31	10.75	13.85	14.28
Cultural-enlightenment work .....	0.42	0.70	0.98	1.04
Training of cadres .....	3.25	4.85	7.02	7.39
Science .....	4.13	6.43	7.89	7.90
Publishing .....	0.08	0.12	0.14	0.15
Art and broadcasting ....	0.30	0.63	1.12	1.18
Health and physical culture, <sup>2</sup> of which: .....	6.67	9.28	11.47	11.85
Health .....	6.39	8.74	10.49	10.85
Physical culture .....	0.04	0.05	0.07	0.07
Social welfare measures ....	13.98	21.89	32.78	35.10
Social security, of which: .....	9.05	12.74	18.17	19.21
From state social insurance .....	6.50	9.77	14.34	15.24
State social insurance ....	4.04	7.33	11.85	12.75
Aid to mothers .....	0.46	0.44	0.39	0.37
For collective farmers' welfare fund .....	0.44	1.38	2.38	2.77

<sup>1</sup> For complete data for 1965-76, actual and plan, see table A-4 in the appendix.

<sup>2</sup> Components exclude capital investment.

nonbudgetary resources in financing SCM, and (c) the slower relative growth of SCM outlays. Since 1965, SCM activities have been financed increasingly from the resources of state, cooperative, trade union, and similar organizations, as well as collective farms. The state budget provided 79 percent of the all-source funding of SCM in 1976, down from 84 percent in 1965.

The growth in SCM outlays over the past decade reflects measures taken to raise real incomes, particularly by means of the social insurance and social security programs. These latter expenditures more than doubled during 1966-76, largely owing to:

- Rising pension and welfare grants, which are tied to workers' earnings.<sup>29</sup> About 46 million

<sup>29</sup> The average monthly wage for all workers rose from 96.5 rubles in 1965 to 151.4 rubles in 1976. Also, the minimum pension for industrial workers was raised in 1971 from 30 rubles to 45 rubles per month.

people, or almost 18 percent of the population, are receiving pensions in 1977—compared with 26 million pensioners, or 11 percent of the population in 1965.

- Wider coverage of existing benefits such as the extension of pension privileges to collective farm workers in 1965. The state budget provided almost 2.4 billion rubles to this pension fund in 1975, underwriting about two-thirds of the program's cost, with collective farms contributing the remaining portion. Almost 12 million collective farmers received pensions in 1976—4 million more than in 1966, the first full year of the farmers' pension program.
- The introduction of new programs, such as the 1974 announced program of children's allowances to low-income families. The cost of this program may be about 1.8 billion rubles.<sup>30</sup>

The second largest boost in SCM outlays was a 93-percent increase between 1965 and 1976 in education, science, and culture. With the exception of "science" (described in the following section), these funds are contained largely in the republican and local budgets; for example, 85 percent of the budget allocation for education and culture, including the financing of schools, agitation-propaganda work, art and broadcasting, is channeled through republican and local budgets.

The budget appropriation for health and physical culture rose 78 percent during 1966-76. The appropriation for physical culture is quite small—only 70 million rubles in 1976. Budget spending for health care, 10 billion to 11 billion rubles in recent years, provides three-quarters of the all-source funding for this activity. Like education and cultural activities, health services are planned and financed primarily at the local governmental levels. In 1975, for example, 88 percent of budget outlays for health were contained in the local budgets, 7 percent in the republican budgets, and only 5 percent in the all-union budget.<sup>31</sup>

<sup>30</sup> A. Skachko, *Profaktivu o gosudarstvennom byudzhetze*, Moscow, 1976, p. 65.

<sup>31</sup> It is suspected that the small all-union allocations for health services, education, and culture contain military-related funds.

### Science <sup>32</sup>

The state science budget warrants special attention: it is the primary source of financing basic research, and it is believed to finance a large portion of military and civilian research, development, testing, and evaluation (RDT&E) and space programs.

Some military-related science outlays are believed to be financed from the all-union science budget—which comprises more than 90 percent of the total budget allocation—although precise knowledge of the amounts involved and their coverage is not available.

Science-related funds for both military and civilian purposes also are included in other sections of the state budget: some capital investment, prototype development, and a share of the costs of introducing new technology (both civilian and military) are believed included under FNE; the costs of military personnel engaged in defense-related R&D are probably included with all military personnel costs; and university budgets (VUZes) contain important sums for scientific activities (at least 150 million to 200 million rubles annually).<sup>33</sup>

Allocations from the state science budget rose by 88 percent from 1965 to 1975, growing at the average annual rate of 6.5 percent (see table 8). At the same time, reported all-source science spending more than doubled and grew at the annual rate of 9.7 percent.<sup>34</sup> As a result, the explicit science budget declined steadily as a share of total science funding, from 62 percent in 1965 to less than 50 percent since 1972. Several factors explain this development:

- The conversion of most scientific research institutes (NIIs) from budgetary status to *khozraschet* status—although there are many *khozraschet* scientific research organizations that

<sup>32</sup> For a comprehensive treatment of the expenditures and sources of financing Soviet science, see Louvan E. Nolting, *Sources of Financing the Stages of the Research, Development and Innovation Cycle in the USSR*, US Department of Commerce, Foreign Economic Reports, No. 3, September 1973.

<sup>33</sup> S. M. Aleshin, "Nekotoriye voprosy planirovaniya i uchete zatrat na nauku," *Finansy SSSR*, No. 10, 1976, p. 43.

<sup>34</sup> It is not known whether the total reported science expenditures include all the science-related funds that are included in the nonscience appropriations of the state budget.

Table 8

USSR: Expenditures for Science													
	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977 Plan
Billion Current Rubles													
Total reported science expenditures	6.90	7.50	8.20	9.00	10.00	11.70	13.00	14.40	15.70	16.45	17.40	17.7	18.2
Science budget category <sup>1</sup>	4.27	4.61	5.05	5.52	5.88	6.54	7.02	7.30	7.64	8.04	8.03	NA <sup>2</sup>	NA
Other budget categories and nonbudget financing <sup>3</sup>	2.63	2.89	3.15	3.48	4.12	5.16	5.98	7.10	8.06	8.41	9.37	NA	NA
Percent													
Budgetary allocation for science as a share of total reported science expenditures	62	61	62	61	59	56	54	51	49	49	46	NA	NA

<sup>1</sup> Including some capital investment.

<sup>2</sup> The USSR publishes several different science series. Although the 1976 science budget "with capital investment" is not known, it is probably almost identical to the 1975 figure of 8.03 billion rubles. The 1976 science budget "without capital investment" was reported as 7.897 billion rubles, only 0.004 billion rubles more than in 1975.

<sup>3</sup> Calculated as a residual.

are financed largely from budget appropriations.

- Increased financing of science from such nonbudget sources as contract funding, charges to cost of production, operational expenditures, and other "own resources."
- Since 1969, several industrial ministries have adopted a unified fund for the development of science and technology. This single source of financing R&D is created from enterprise profits and has nearly completely replaced the state budget as a source of science financing for these ministries.

### Defense

The only information released by the USSR on its annual defense expenditures is a one-line item in the published state budget. The size of this number, however, is clearly too small to cover the full range of observed Soviet military activities. In fact, actual defense outlays are estimated to be about three times larger than the budget item labeled "defense." For example, CIA has estimated that Soviet 1975 defense expenditures (defined to accord with US budgetary accounts)

were 50 billion to 55 billion rubles when measured in constant 1970 prices.<sup>35</sup> The announced 1975 defense number is 17.4 billion rubles in current prices.

Explicit budget expenditures for defense rose from 12.8 billion rubles in 1965 to 17.9 billion rubles in 1972 and thereafter declined gradually to a plan figure of 17.2 billion rubles in 1977 (see table 9). While total state budget expenditures continued to grow, the defense portion of the budget steadily shrank—from 12.6 percent in 1965 to 7.2 percent in the 1977 plan.

It is known that all defense expenditures funded by the Ministry of Defense (MOD) are planned on the basis of the MOD *Smeta*, or "estimate." Soviet writers describe the activities covered by the *Smeta* as including military pay and subsistence, outlays for operations and maintenance, military procurement, and military construction.<sup>36</sup> However, there are major obstacles in trying to relate the MOD *Smeta* to the announced defense budget:

<sup>35</sup> CIA, SR 76-10121U, *Estimated Soviet Defense Spending in Rubles, 1970-75*, May 1976, p. 9.

<sup>36</sup> See, for example, A. M. Aleksandrov, ed., *Gosudarstvennyi byudzhet SSSR*, Moscow, 1965, pp. 382-383, and D. K. Allakhverdyan, et al., *Finansy SSSR*, Moscow, 1962, p. 310.

Table 9

USSR: Explicit Defense Expenditures													
	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977 <sup>1</sup>
	Billion Current Rubles												
Explicit budget allocation for defense .....	12.78	13.40	14.50	16.70	17.70	17.85	17.85	17.90	17.85	17.65	17.43	17.4	17.23
	Percent												
Defense as a share of total state budget ....	12.58	12.69	12.58	12.99	12.78	11.55	10.87	10.33	9.70	8.94	8.13	7.68	7.22

<sup>1</sup> Plan.

- Nowhere in the Soviet literature is there any quantification of the *Smeta* or any of its components.
- No Soviet source has ever unequivocally linked the *Smeta* to the announced defense appropriation.<sup>37</sup>

Even if the coverage of the *Smeta* and the announced defense budget were identical, total Soviet defense spending would still exceed the announced budget by the cost of the defense-related activities that are not included in the *Smeta*; for example, RDT&E, civil defense, foreign military aid, military stockpiling, and space.

It is suspected, but cannot be proved, that the announced defense budget is largely a current expenditures budget of the Soviet military establishment. As such, it would probably include pay and allowances of military personnel, wages of civilian MOD employees, current repair of facilities, pensions, food and nonfood quartermasters supplies, utilities, and the like. Even if this is true, however, the decline in the defense budget in recent years—at a time when we believe Soviet operating and maintenance costs have increased considerably—suggests that the announced budget is manipulated for political purposes. To signal Soviet attitudes about detente, for example, some operating expenditures could have been shifted from the defense budget to other budget

<sup>37</sup> William T. Lee discusses this and other aspects of the MOD *Smeta* in *The Estimation of Soviet Defense Expenditures, 1955-75: An Unconventional Approach*, New York: Praeger, 1977. pp. 320-323. See also Robert E. Leggett and Sheldon T. Rabin, "A Note on the Meaning of the Soviet Defense Budget," *Soviet Studies*, forthcoming.

lines in the 1970s, resulting in a showing of apparently reduced defense spending.

The uncertainty surrounding the true coverage of the announced defense budget has rendered it virtually useless as a barometer of either the level or the trends in total Soviet defense expenditures. As a result, Western analysts have had to devise various methodologies to estimate Soviet defense spending. CIA, for example, estimates Soviet defense spending by a building-block approach. This method consists of identifying the forces and activities that constitute the Soviet military effort and then estimating the annual cost of these components and summing these costs to yield estimates of total spending. Other approaches used by Western observers rely heavily on reported Soviet economic statistics.

Another approach to the defense expenditures issue is to construct a measure of budget funds that might be "available" for financing defense activities. Besides the announced defense budget, these funds would include the portion of the FNE residual that is unidentified by functional end use, a share of the science budget, and several smaller outlays. Given the uncertainties surrounding the meaning of all Soviet budget data, however, the results obtained using this methodology must be regarded as general orders of magnitude rather than point estimates.<sup>38</sup> Nonetheless, the concept of "available" funds can serve as a useful check on the reasonableness of Western estimates of Soviet military outlays.

<sup>38</sup> Franklyn D. Holzman has examined the uncertainties in the definition and coverage of Soviet budgetary data in *Financial Checks on Soviet Defense Expenditures*, Lexington, Mass.: D.C. Heath and Company, 1975.

A tentative calculation of budget funds "available" for defense in 1970 is presented in table 10. This exercise indicates that between 44 billion and 50 billion rubles, or between 28 and 32 percent of the entire state budget might have been spent for defense. This suggests that there is

Table 10  
USSR: Budget Funds "Available" for Defense, 1970  
Billion Current Rubles

Total <sup>1</sup> .....	43.8-49.8
FNE residual unidentified, by end use .....	18.0-24.0 <sup>2</sup>
Science budget .....	6.4 <sup>3</sup>
Budgetary expenditures residual (33 percent) .....	1.5 <sup>4</sup>
Announced defense budget .....	17.9

<sup>1</sup> Defense outlays financed from the budgets for education, health, and administration are not estimated. Also not estimated and not included in this estimate of "available" funds are any nonbudget funds that might be used for defense-related activities, such as military RDT&E financed from enterprise "own" resources.

<sup>2</sup> Representing a ranged FNE residual, as calculated in table 6. FNE funds probably finance most military procurement and other investment-type defense costs such as development of weapons prototypes.

<sup>3</sup> This figure is the explicit science budget for 1970. No one outside of a small group of Soviet officials knows how much of this appropriation is military related. For a discussion of several Western estimates of Soviet military science costs see The International Institute for Strategic Studies, *The Military Balance, 1973-74*, London: 1973, pp. 8-9.

<sup>4</sup> The KGB and possibly other defense and security-related outlays are financed from this residual. Here, one-third of this residual (see tables 1 and A-1) is assumed to be military related.

room in the state budget as published to accommodate most official and nonofficial Western estimates of Soviet defense expenditures. For example, total "available" budget funds for 1970 could cover the 45 billion to 50 billion rubles estimated by CIA (using a broad definition of defense such as the Soviets might use).<sup>39</sup>

The coincidence between the above calculation of "available" budget funds and Western esti-

<sup>39</sup> CIA, May 1976, p. 9; a semiofficial French source has recently estimated Soviet 1970 defense spending at about 34 billion rubles. See X.X.X., "Combien de roubles pour la defense?" *Defense Nationale*, November 1976, p. 54. Other estimates place the Soviet defense bill at higher levels. For example, William T. Lee suggests that 1970 Soviet defense outlays were on the order of 42 billion to 49 billion rubles. See his *The Estimation of Soviet Defense Expenditures, 1955-75: An Unconventional Approach*, p. 141. It is interesting to note that the Chinese Communists—never ones to downgrade the nature of the Soviet threat—have estimated the 1970 USSR defense bill at 49 billion to 51 billion rubles. See *Peking Review*, 7 November 1975, p. 20, and 28 November 1975, p. 9.

mates does not mean necessarily that defense outlays were made in the amount or in the manner outlined in the table:

- It is doubtful that all of the "available" funds could have been allocated to defense activities. This methodology is in many ways an expression of Western ignorance of the possible nondefense uses for these budget resources. Alternatively, some defense spending could easily be concealed in the ostensibly civilian end uses under the appropriations to FNE, such as for capital investment and operational outlays.<sup>40</sup>

- A presumably small but unknown amount of defense-related expenditures probably is funded on the basis of nonbudgetary funds, such as the resources of the *khozraschet* industrial, construction, and trade enterprises of MOD.<sup>41</sup>

#### Administration and Loan Service

Expenditures for administration and loan service typically account for about 1 percent of total budget outlays. The announced budget appropriation for administration covers the costs of government operations—wages, social security contributions, office expenses, and other administrative costs—for the judicial system, central and local legislative bodies and ministries (including, possibly, the central office costs of the MOD), the planning and financial apparatus, and embassies and consulates abroad.

The budget allocation for administration has increased gradually from 1.3 billion rubles in 1965 to 2.1 billion rubles in 1976. However, the announced budget appropriation is believed to cover only a portion of the total expenses incurred by the government "apparat"—perhaps as low as one-sixth, depending on the definition used.<sup>42</sup> A share of the administrative expenses for

<sup>40</sup> For example, capital expenditures under FNE which have both military and civilian applications, such as airfields, naval bases, and roads, could be concealed in this manner. This practice is implied by M. L. Tamarchenko, *Sovetskiye finansy v period velikoy otechestvennoy vojni*, Moscow, 1967, pp. 98-100.

<sup>41</sup> For an excellent discussion of the numerous possible schemes for concealing defense expenditures see Holzman, pp. 13-46.

<sup>42</sup> In one of the few Western treatments of this subject, Gertrude Schroeder concluded that official Soviet statistics grossly understate both the cost of government administration and the level of employment in the "apparat." See "A Critique of Official Statistics on Public Administration in the USSR," *ACES Bulletin*, spring 1976, pp. 23-44.

the economic ministries may be financed partially under the appropriate branch in the budget FNE. Other outlays are financed from nonbudgetary sources, for example, from the cost of production in the industrial sector and from the cost of distribution in the trade sector.

Loan service to the population consists of payments of interest and principal on the public debt. This amount has generally been a very minor budget entry since 1957, when the state stopped mandatory subscription bond sales and announced a 20-year moratorium on repayments. The government continued a 3-percent lottery loan, however, in which income from the loan is paid out in the form of prize winnings equivalent to 3-percent interest. Loan service on this latter account has fluctuated between an estimated 80 million and 200 million rubles annually.<sup>43</sup>

In 1973 the Council of Ministers ordered the redemption of the 25.8 billion rubles in outstanding subscription loans, beginning in December 1974. This program should realize Brezhnev's 1971 pledge to redeem the bonds several years ahead of schedule. The debt was retired by 1.0 billion rubles annually in 1974-75. The state plans on redeeming the bonds by 1.2 billion rubles in each year of 1976-80; 1.5 billion, 1981-85; 2.0 billion, 1986-89; and a final payment of 2.3 billion in 1990.

#### Reserve Funds of the Councils of Ministers

The plan budgets include a contribution to the financial reserves of the union and republican Councils of Ministers. Although this allocation is not announced, the calculated residual in the planned budget is believed to include the reserve funds as well as several items that constitute the budgetary expenditures residual (see following section). In the actual budget, however, the reserve funds are assumed to be classified under the categories for which they were expended during the year. If so, their size can be approximated by comparing the plan and actual residuals: using this method, the reserve funds appear to have averaged 2.3 billion rubles annually during 1965-76.

<sup>43</sup> Since 1971, budget reporting has carried no item on loan service.

While the uses of this financial reserve are not generally announced, they are believed to include:

- Emergency and disaster relief. From time to time the government publicizes outlays from the reserve funds, such as the financing of disaster relief in flood stricken republics. The amounts involved, however, probably comprise a very small portion of the total reserve funds expended in any given year.
- Expenses occasioned by unforeseen developments in the international arena. All-union reserve funds were possibly used in 1968 to help finance the resupply of the Arab armies after the 1967 Six-Day War as well as the August invasion of Czechoslovakia. These outlays would explain in part why reserve funds jumped from 1.25 billion rubles in 1967 to a record 6.17 billion rubles in 1968.
- Supplemental financing for the national economy, social-cultural measures, and other measures not envisioned at the beginning of the year.

#### The Budgetary Expenditures Residual

The budgetary expenditures residual is the amount remaining after outlays for the primary categories have been accounted for in the actual budget. The residual averaged 5.3 billion rubles between 1965 and 1976, or 3 percent of total budget expenditures.

Little information is available on this calculated residual. It is believed to finance the Committee for State Security (KGB) and other internal security operations.<sup>44</sup> It also includes allocations to the state banks for the expansion of long-term credit facilities and miscellaneous rebates and small payments to enterprises and organizations. The residual may also contain funds for foreign aid and for repayment to the savings banks of any sums used as budget income during the year.

<sup>44</sup> The financing of the state security services is rarely addressed in recent Soviet literature, although it is known that these activities are funded through a separate line item in the state budget. (S. M. Gel'rud and A. F. Yakovleva, *Albom naglyadnykh posobiy po kursu "gosudarstvennyi byudzhet"*, Moscow, 1963, p. 17.)

**Table 11**  
**USSR: Revenues of the State Budget <sup>1</sup>**  
**Selected Years**

	Billion Current Rubles				
	1965 Actual	1970 Actual	1975 Actual	1976 Actual	1977 Plan
Total	102.32	156.70	218.77	232.2	238.94
Social sector .....	93.89	142.86	199.09	211.3	216.7
Turnover tax receipts ....	38.66	49.38	66.61	70.7	73.3
Payments from profits ....	30.87	54.16	69.71	70.6	78.4
Income tax on organiza- tions .....	1.54	1.23	1.46	1.5	1.5
Social insurance receipts	5.56	8.20	11.06	12.2	13.0
Residual .....	17.26	29.89	50.25	56.3	50.5
Private sector .....	8.43	13.84	19.68	20.9	22.2
State taxes on the population .....	7.70	12.74	18.36	19.6	20.9
State loans .....	0.18	0.47	0.56	0.6	
Local taxes and lotteries .....	0.55	0.63	0.76	0.7	1.3
Budget surplus .....	0.70	2.10	4.25	5.5	0.21

<sup>1</sup> For complete data for 1965-77, actual and plan, see table A-5 in the appendix. Because of rounding, components may not add to the totals shown.

**Revenues**

Budget revenues between 1965 and 1976 grew at an average annual rate of 7.7 percent, slightly faster than the growth of expenditures (see table 11). The USSR relies primarily on indirect tax-

ation for its budget income. Revenues are derived from both the social sector (economic organizations and enterprises) and the private sector (individuals). The former is by far the more important source, consistently providing more than nine-tenths of total revenues (see figure 2).

Income from the social sector consists of turnover tax receipts, payments from profits of enterprises, income taxes on collective farms and economic organizations, social insurance receipts, and a large residual of numerous itemized and nonitemized entries. Turnover tax receipts and payments from profits are the two major sources of revenue and generally account for roughly two-thirds of total budget receipts.

Income from the private sector increased slightly as a portion of total revenue, from 8 percent in 1965 to 9 percent in 1976. The largest component, state taxes on the population, traced a comparable rise, from 7.5 percent in 1965 to 8.4 percent of total revenues in 1976. This occurred because of rising wage levels which made a sizable share of the workers' wages subject to the maximum income tax rate of 13 percent.

**Turnover Tax Receipts**

The turnover tax is essentially an excise tax levied on consumer goods—about three-fourths of the total amount appears to be collected from

**USSR: Major Sources of Budget Revenue**

Percent

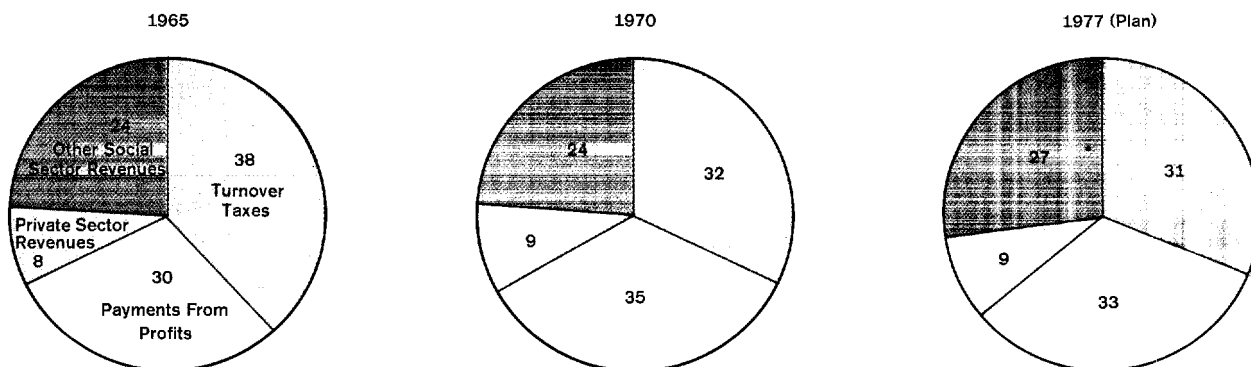


Figure 2

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the light and food industries.<sup>45</sup> The tax varies on each item and is included in the retail price. Some producer goods are also taxed, such as electric power, oil, and gas. Consumer durables, produced in machinery plants, carry high turnover taxes. Military hardware items are treated like most producer goods and are not subject to the turnover tax, as are goods allocated to state reserves and exports.

Since its introduction in 1930, the turnover tax has served a number of purposes:

- As a principal source of state revenue, with varying amounts also allocated annually to the individual union-republics. (The latter distribution serves as a budget-balancing mechanism throughout the budget system.)
- As a tool to maintain a desired balance between overall public purchasing power and the volume of available consumer goods and services.
- As a lever for regulating enterprise profits.

Turnover tax receipts have not risen as rapidly as have total budget revenues in the past decade.<sup>46</sup> From 1965 to 1976 turnover tax receipts increased by only 83 percent, rising at an average annual rate of 5.6 percent. The net result was a smaller role for this tax in the total revenue picture; its 38-percent share of revenue in 1965 dwindled to 30 percent in 1976.

This slowdown in the growth of turnover tax receipts has resulted from several developments:

- The increased procurement prices on agricultural raw materials and higher wholesale

<sup>45</sup> V. N. Semenov, *Rol' finansov i kredita v razviti selskogo khozyaistvo*, Moscow, 1973, p. 267. Alcoholic beverages provide the largest single share of tax proceeds. In 1973, for example, about one-third of turnover tax, or 20 billion rubles, came from products of the alcoholic beverage, beer, and wine industries. (Calculated on the basis of data in Yevdokimov, p. 44.)

<sup>46</sup> Budget receipts of turnover taxes are published net of "payments charged against turnover tax," such as rebates to trade enterprises and clothing producers for certain types of expenditures and for the transport of goods to outlying regions. The turnover tax number published in annual statistical handbooks is about 92 percent of the gross turnover tax payments. This question of net versus gross turnover tax is discussed by V. I. Vesland in *Izvestiya Akademii Nauk SSSR: serya ekonomicheskaya*, No. 5, 1975, pp. 63-74.

prices on many other items—the result of price reforms—were not passed on to the retail level. This practice squeezed turnover tax receipts.

- Many turnover tax rates since 1965 were reduced (especially on food products) or eliminated (such as the rural surcharge, which was a higher rate on consumer goods sold in rural areas). The unusually slow growth of turnover taxes in 1972, for example—just over 1 billion rubles—was due in large part to the sharp reductions in the turnover tax on grain products.<sup>47</sup> The decline in tax revenues as a percentage of retail sales, from 37 percent in 1965 to 32 percent in 1976, may be a general reflection of these numerous reductions in the overall tax rate.

#### Payments From Profits

Payments from enterprise profits into the state budget rose from 30.9 billion rubles in 1965 to 70.6 billion rubles in 1976, at an average annual rate of 7.8 percent.<sup>48</sup> Most payments from profits are made by industrial enterprises (about 60 percent in recent years); one of the smallest shares—4 to 5 percent—comes from agriculture and procurement.

As a result of the 1965 economic reforms and the 1967 industrial wholesale price increases, the share of budget revenue from profits payments rose from 30.2 percent in 1965 to 36.7 percent in 1968. This share has since declined to under one-third primarily because the total profits of the industrial enterprises, which rose by over 33 billion rubles during 1965-70, increased by only 9 billion rubles during 1970-76. Among the reasons for the recent slowed growth of profits are the major price reductions on machinery products (in 1971 and 1973) and the rising costs in some economic sectors (such as the extractive industries) without compensating price increases for their output.

The method of distributing profits has changed since 1965 as a result of the implementation of

<sup>47</sup> V. N. Semenov, *Rol' finansov. . .*, p. 251.

<sup>48</sup> Published statistics on payments from profits are on a year-paid basis and include taxes from the current year's earnings as well as any taxes recalculated from the previous year's earnings.

the economic reforms.<sup>49</sup> Previously, enterprises made a single "deduction from profits" into the state budget. Now, most enterprises make "payments from profits" that are composed of several parts:

- Capital charge. One of the most important innovations of the reforms, this charge is usually 6 percent of fixed and working capital. By charging enterprises for budget-financed capital, it was hoped that enterprises would have an incentive to more efficiently use their existing capital.
- Fixed payments, paid by enterprises for especially favorable natural, transportation, or other conditions. Enterprises in the extractive industries provide more than 60 percent of the fixed charges.
- "Free" profit remainder, formed after payment of the above charges plus interest on repayment of bank loans and stipulated deductions into the various enterprise funds (for material incentives, social-cultural measures, and housing and for the development of production) and several other allowable deductions. The free profit remainder is the largest of the profit payments, accounting for 47 percent of all payments from profits in 1976.
- "Deductions from profits" and other payments, including deductions from enterprises not yet transferred to the new system of profit accounting as well as several other payments from enterprise profits, such as deductions for geological work and the removal of excess amortization funds and working capital. (In 1975, these latter payments were planned at 3.2 billion rubles, or about 5 percent of total planned payments from profits.)<sup>50</sup>

Despite the rapid growth in payments from profits, these funds form a declining share of total enterprise profits, falling from 69 percent in 1965

<sup>49</sup> An excellent discussion of the reform's impact on the financial relationships of the producing enterprises with the state budget and the banking system is found in Gertrude E. Schroeder, "Post-Khrushchev Reforms and Soviet Public Financial Goals," in Zbigniew M. Fallenbuehl (ed.), *Economic Development in the Soviet Union and Eastern Europe, Volume 2*, New York: Praeger, 1976, pp. 348-367.

<sup>50</sup> V. F. Garbuzov, "Byudzhet zavershayushchego goda pyatiletki," *Finansy SSSR*, No. 1, 1975, p. 8.

to 57 percent in 1976. This reflects the leadership's attempts to increase the role of enterprise-retained profits in the financing of capital investment, working capital, and capital repair and in supplementing incentive funds. For example, enterprise profits financed only 12 percent of capital investment in industry, transportation, and communications in 1965, 24 percent in 1969, and about 22 percent subsequently.<sup>51</sup>

### Other Social Sector Revenues

Other payments from the social sector into the budget include social insurance receipts, income taxes on organizations (for example, collective farms and nonstate economic organizations such as consumers' cooperatives), and a number of unrelated revenues that form a large and rapidly growing revenue residual.

Social insurance receipts provide about 5 percent of total budget revenues. These payments are made by state enterprises as a fixed percentage of their wage bill, ranging from 9 percent in the coal industry to 4.4 percent in agriculture.<sup>52</sup> The funds are used for pensions, disability benefits, sanatoriums, and child care facilities (see table 12). While the Social Insurance Budget is an independent unit administered by the trade unions, its income and expenditures are consolidated into the state budget. Receipts are not sufficient to cover outlays, and so general budget funds are made available. In recent years, receipts have supplied a diminishing portion of the program's expenditures, falling from 53 percent in 1965 to 44 percent in 1976.

Income taxes on the *khozaschet* enterprises of public organizations and on collective farms and cooperatives have fluctuated between 1 billion and 1.5 billion rubles since 1965 and provide less than 1 percent of total budget revenue. The tax rates for collective farms depend on net income levels, while consumer cooperatives typically pay an income tax at the rate of 35 percent of net income and other organizations pay a rate of 25

<sup>51</sup> P. N. Zhevtyak and V. I. Kolesnikov, *Pribil v sotsialisticheskoy raschitrennom vosproizvodstve*, Moscow, 1976, p. 153.

<sup>52</sup> O. G. Shapovalenko, *Kontrol' za raskhodami na upravleniye*, Moscow, 1976, pp. 8-9. This source also reveals that the social insurance payment by the aviation and defense industries is 7.3 percent of the wage bill.

Table 12

USSR: State Social Insurance Receipts and Expenditures												
	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976
Billion Current Rubles												
Expenditures .....	10.54	11.47	12.46	13.85	15.34	17.11	18.35	19.65	21.06	22.62	26.19	27.99
Benefits .....	2.59	2.68	2.95	3.54	4.13	4.61	4.64	4.85	5.32	5.67	7.21	7.82
Temporary disability	1.96	2.02	2.28	2.81	3.34	3.73	3.69	3.86	4.26	4.44	5.08	5.56
Pregnancy and child-birth .....	0.62	0.65	0.66	0.72	0.79	0.87	0.94	0.99	1.04	1.19	1.26	1.34
Pensions .....	7.41	8.17	8.84	9.58	10.43	11.65	12.80	13.84	14.73	15.82	17.76	18.90
Sanitarium and health resort care .....	0.36	0.41	0.44	0.49	0.52	0.55	0.62	0.64	0.69	0.75	0.79	0.86
Child care <sup>1</sup> ....	0.14	0.15	0.16	0.17	0.18	0.19	0.20	0.21	0.22	0.25	0.26	0.27
Other .....	0.05	0.06	0.08	0.07	0.08	0.10	0.10	0.10	0.10	0.13	0.16	0.16
Receipts .....	5.56	6.00	6.39	7.12	7.78	8.20	8.71	9.14	9.75	10.41	11.06	12.20
Percent												
Receipts as a share of total expenditures ..	53	52	51	51	51	48	47	47	46	46	42	44

<sup>1</sup> Pioneer camps, for example.

percent. Numerous organizations are exempt from paying the income tax—for example, economic enterprises of Party and Komsomol organizations.<sup>53</sup>

The social sector revenue residual has grown at a higher rate since 1965 than any other budget revenue category. In 1966-76 the residual rose at an average annual rate of 11.3 percent. Its share of total budget revenues increased from 17 percent in 1965 to about 24 percent in 1976. Although the size of several minor revenues in this grouping is reported annually, the largest portion—probably more than 90 percent—is not.

The revenues that can be estimated or for which data are usually available include the following: fees from forestry operations and radio-television subscriptions (each about 500 million to 600 million rubles annually),<sup>54</sup> funds created by the annual mandatory reduction in administrative-management expenditures by enterprises (averaging 1 billion rubles annually

<sup>53</sup> Yevdokimov, p. 90.

<sup>54</sup> The radio industry pays the subscription fee directly to the budget. Until 1962, owners of radios and television sets paid their subscription fees when they made their utilities payments at the savings banks.

since 1965), and a percentage deduction from a group of insurance payments.<sup>55</sup>

Among the revenues that are not announced annually are customs duties, receipts from budgetary institutions, accounting profits from foreign trade (and possibly gold sales in Western markets) arising from the differences between domestic and foreign prices, various types of state fees (for example, for automobile inspections), the return to the budget of enterprise-received but unexpended funds from the previous year, income from the sale or rental of state property and confiscated property, savings in the reduction in the cost of capital repair, and numerous very small revenues.

No single known revenue or group of revenues can explain the residual in any given year; nor can the known revenues explain the tremendous jump in the residual from 17 billion rubles in 1965 to 56 billion rubles in 1976. In recent years,

<sup>55</sup> In the Belorussian SSR in 1975, for example, local budgets received 50 percent of the payments by cooperatives for voluntary property insurance and by the population for certain types of obligatory and voluntary insurance. M. I. Khodorovich, "Dokhodi mestnikh byudzhetov ot strakhovikh platezhei," *Finansy SSSR*, No. 8, 1975, p. 62.

therefore, strong suspicion has developed among Western observers that a sizable share of this residual consists of sensitive financial flows that the state, for various reasons, does not wish to disclose. Several tentative but untested hypotheses can be put forth which might point the way toward an explanation of this revenue residual:

- Repayment for foreign aid extended by the USSR. It is known that the state budget includes various expenditures for "financial aid to Socialist states as well as developing countries."<sup>56</sup> To the extent that this aid is repaid, it would probably be treated as budgetary revenue. Receipts from the rapidly growing sales abroad of weapons might also be handled in this manner. The sensitive nature of these financial flows would be the likely reason for including them in an unidentified revenue residual.
- Proceeds from the expansion of the money supply. Gosbank issues bank notes (currency) on the basis of 25-percent backing by precious metals (including gold) and foreign hard currency, and 75-percent by other assets of the bank.<sup>57</sup> It is possible that a certain portion of the new currency is treated as an unreported income to the state budget, in either the form of loans or credits to the budget's accounts. Such a practice would not be unprecedented in Soviet annals as the issuance of new currency was used to cover budgetary deficits in the early 1920s as well as during the first three years of World War II. In discussing this latter episode, one Soviet economist alluded to the mechanism for such a practice when he noted that "the issuing of additional currency . . . was effected partly in the form of covering state budget expenditures from its account in Gosbank. Formally it was effected through credit, although it was essentially of a budget character."<sup>58</sup>
- Budget "borrowing" from the population's savings deposits. Until 1963 the annual increase in the population's savings deposits was placed

<sup>56</sup> I. D. Zlobin, ed., *Ffinansy SSSR*, Moscow, 1971, p. 331.

<sup>57</sup> N. A. Tsagolov, *Kurs politicheskoy ekonomii*, Volume II, Moscow, 1970, pp. 287-288.

<sup>58</sup> V. Batyrev, *Denezhnoye obrashchenoye v SSSR*, Moscow, 1959, p. 209.

by the savings banks in a loan to the budget. This practice was officially stopped on 1 January 1963, when the savings banks were transferred from the Ministry of Finance to Gosbank. After that date, the increase in savings deposits was to be used to expand Gosbank's lending capabilities. Some of this increase, however, may still be treated as a revenue, perhaps in the form of unreported loans to the budget's account. Soviet sources since 1963 provide little specific information in this area, although they frequently imply that the population's savings deposits still constitute "budget available" funds.<sup>59</sup>

Additional research on this contention is clearly required, especially since, along with the preceding hypothesis on the expansion of the money supply, it suggests the possibility of some form of deficit budget financing.<sup>60</sup>

#### Revenues from the Private Sector

Annual revenues from the private sector more than doubled in size during 1966-76, growing at the average annual rate of 8.6 percent. In recent years the state budget has increased slightly its dependence on private sector revenues, from 8.2 percent of total revenues in 1965 to 9 percent in 1976—this despite repeated promises from the leadership to reduce or abolish the many taxes on the private sector.<sup>61</sup>

State taxes on the population account for more than 90 percent of private sector revenues. These taxes grew from 7.7 billion rubles in 1965 to 19.6 billion rubles in 1976. In 1975, for example, these taxes included the following:

<sup>59</sup> For example, Tsagolov, pp. 522-523, and D. K. Allakhverdyan, *Soviet Financial System*, 1966, pp. 274, 278.

<sup>60</sup> Some useful information on the revenue residual might be found through research on the financial systems of the East European Communist states, whose budgets are patterned on the Soviet model. In both Hungary and Poland, for example, foreign loans and net savings bank deposits are mentioned as budgetary revenues. See the Columbia University Research Project on National Income in East Central Europe, published in 1968: *Financial and Fiscal Systems of Hungary*, 1968, New York, Volume II, pp. 216-217, and *Financial and Fiscal Systems of Poland*, 1968, New York, Volume III, p. 317.

<sup>61</sup> For example, in September 1967 the Central Committee of the Communist Party and the Council of Ministers jointly resolved "to continue the reduction and abolition of taxes on the wages of workers and employees." (*Izvestiya*, 27 September 1967, p. 1).

Type of Tax	Billion Rubles
Total	18.36
Personal income tax	16.99
Agricultural tax	0.29
Bachelor and small-family tax	1.08

The personal income tax is paid at a progressive rate ranging from 1 to 13 percent, and tax payments are differentiated according to sources of income and size of family. The growth of these taxes in recent years is attributable to the general rise in wages as well as the greater number of lower paid workers receiving wages above the tax-free minimum wage (70 rubles per month in 1977). More than one-half of the personal income taxes enter the revenues of the republican budgets.

The agricultural tax and the bachelor and small-family tax are included entirely in the revenues of the republican budgets. The agricultural tax dates back to the New Economic Policy (NEP) of the 1920s. It is a progressive tax levied on persons having an income from farming on private plots. The bachelor and small-family tax was introduced in 1941 as a wartime revenue measure. Both the payers of the tax and the various exemptions have been revised frequently since that time.

Other private sector revenues, which totaled 1.32 billion rubles in 1975, include the net proceeds from a 3-percent lottery loan (281 million rubles in 1975), a republic-sponsored cash-or-commodity lottery that brings in about 250 million rubles annually, and miscellaneous local taxes and fees. These sources of income have increased

very slowly under Brezhnev and typically constitute less than 1 percent of total budget revenue.

### The Budget Surplus

Since World War II, the USSR consistently has run an annual surplus of budget revenues over expenditures. The planned surpluses in 1965-77 have fluctuated between 150 million and 310 million rubles. The actual surpluses have had an even wider range—from 700 million rubles in 1965 to 5.5 billion rubles in 1976 (see table 13). The record budget surpluses of recent years may have resulted partly from a greater utilization of nonbudgetary resources, as seen in the substantial short-term bank credits drawn by industrial enterprises, state farms, and trade organizations. Furthermore, improvements in the state's financial oversight and auditing operations have resulted in sizable above-plan revenues.

Very little is known about the end use of the budget surplus. A portion of the surplus for each year is possibly carried over as budget revenue into the new year.<sup>62</sup> However, the remainder, as well as momentarily free budget resources realized during the budget year, is used for expanding the credit resources of the state banks. The exact relationship between the budget and the

<sup>62</sup> As with other areas of the Soviet economy, more reliable information on the budget surplus is available for the period before World War II than for more recent years. In the earlier period, the annual budget surplus was sometimes transferred entirely to the budget revenues for the following year; on other occasions, part of the surplus was sent to the state banks for the expansion of credit resources and a part was used for formation of a "state reserve." See Arthur Z. Arnold, *Banks, Credit, and Money in Soviet Russia*, New York: Columbia University Press, 1937, pp. 242, 384.

Table 13

### USSR: State Budget

	Billion Current Rubles														
	1965		1966		1967		1968		1969		1970		1971		
	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual	
Revenues .....	99.70	102.32	105.54	106.30	110.25	117.16	123.91	130.84	134.10	140.03	144.93	156.70	160.97	165.96	
Expenditures ....	99.54	101.62	105.39	105.58	110.02	115.24	123.60	128.56	133.90	138.53	144.66	154.60	160.77	164.15	
Surplus .....	0.16	0.70	0.15	0.72	0.23	1.92	0.31	2.28	0.20	1.50	0.27	2.10	0.20	1.81	
	1972		1973		1974		1975		1976		1977				
	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual	Plan				
Revenues .....	173.81	175.11	181.84	187.78	194.30	201.32	208.60	218.77	223.7	232.2	238.94				
Expenditures ....	173.61	173.22	181.61	183.98	194.09	197.38	208.41	214.52	223.5	226.7	238.73				
Surplus .....	0.20	1.89	0.23	3.80	0.21	3.94	0.19	4.25	0.2	5.5	0.21				

annual extension of bank credit is difficult to ascertain, however, because the bank's balance sheets are not available and because credit resources are also formed from the free resources of enterprises, personal savings deposits, and specific budget allocations for the expansion of long-term credit (included in the budgetary expenditures residual).

### The Budgets of the Union-Republics of the USSR

Since 1965 the budgets of the republics have played a diminishing role in the distribution of national financial resources (see table 14). These budgets comprised 58 percent of state budget expenditures in 1965, 51 percent in 1966, and between 48 and 49 percent after 1966. This downward trend is due primarily to a decline in the republican budgets' role in FNE. Several factors explain this development:

- In 1965 the *Sovnarkhoz* (regional economic council) system of organizing the economy along regional lines was replaced by the more traditional arrangement of branch ministries.<sup>63</sup> This resulted in the transfer of key industries (geographically concentrated mostly in the RSFSR) from republican to all-union jurisdiction. Whereas the republics distributed 66 percent of state budget funds for FNE in 1965,

<sup>63</sup> The *Sovnarkhozy* had been introduced by Khrushchev in 1957 as a replacement for the ministerial system. They were an attempt to correct some of the ministries' alleged shortcomings, such as "empire building" and lack of attention to regional economic coordination.

their portion fell to 52 percent in 1966 and has fluctuated between 46 and 49 percent since that time.

- Under the current leadership, those areas of the economy typically financed at the all-union level have registered the greatest rise among budgetary expenditures. For example, the rapidly growing outlays on defense, which according to many Western experts consume almost one-third of all budget funds, are financed largely if not entirely from the all-union budget.

The republican budgets have continued, however, to finance the majority of the state budget's expenditures for social programs. For example, about 85 percent of budget outlays for education, 90 to 95 percent of the allocation for health, and more than 90 percent of social security spending flow through the republican budgets.

Revenues of the republic budgets consist of payments from the profits of enterprises under republic jurisdiction, agricultural tax, income tax on collective farms, forestry revenues, bachelor tax and local taxes and fees, 50 percent of the revenue from state lotteries, and slightly more than one-half of personal income taxes. In addition, each republic receives a share of the turnover tax receipts in an amount established annually by the budget law. In the 1977 plan, for example, the percentages of turnover tax retained by the republics ranged from 41 percent in Latvia to 100 percent in Kazakhstan.

Table 14

#### USSR: Major Budget Expenditures of the Union-Republics

	Total (Billion Current Rubles)	Percent of State Budget	Financing the National Economy (FNE) (Billion Current Rubles)	Percent of State Budget for FNE	Social-Cultural Measures (SCM) (Billion Current Rubles)	Percent of State Budget for SCM
1965	58.45	58	29.74	66	26.73	70
1966	53.75	51	23.62	52	27.88	68
1967	55.88	48	24.92	47	29.22	68
1968	61.63	48	28.03	48	31.72	66
1969	66.50	48	30.70	49	33.76	65
1970	73.98	48	35.08	47	36.79	66
1971	79.25	48	38.23	48	38.86	65
1972	83.60	48	40.29	47	41.10	65
1973	87.88	48	41.83	46	45.53	68
1974	95.69	48	46.88	47	46.04	65
1975	104.80	49	52.53	47	49.46	64
1976	106.90	47	NA	NA	NA	NA

APPENDIX  
Statistical Tables

Table

## USSR: Expenditures

	1965		1966		1967		1968		1969	
	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual
Total .....	99.54	101.62	105.39	105.58	110.02	115.24	123.60	128.56	133.90	138.53
Financing the national economy .....	42.36	44.92	43.85	45.18	46.92	52.76	50.19	58.73	58.32	62.38
Industry and construction ....	20.6	20.99	22.4	21.06	21.87	23.53	23.9	24.15	22.2	24.68
Agriculture and procurement .....	7.0	6.77	6.5	6.30	6.35	6.96	9.0	9.27	9.2	10.85
Trade .....	2.0	2.27	2.7	2.84	3.17	4.92	4.0	6.09	6.5	6.43
Transportation and communications .....	2.9	2.83	2.7	2.61	2.66	2.62	2.3	2.65	2.6	2.89
Municipal economy and housing .....	3.8	4.23	4.2	4.53	4.08	5.05	11.0	{ 5.25	4.9	5.89
Residual .....	6.1	7.82	5.3	7.84	8.78	9.68				
Social-cultural measures .....	37.45	38.16	40.38	40.76	42.92	43.48	45.81	48.31	51.12	51.86
Education, science, and culture .....	17.2	17.51	18.71	18.73	19.67	20.09	21.0	21.85	23.2	23.31
Health and physical culture .....	6.5	6.67	7.06	7.10	7.40	7.45	7.7	8.14	8.4	8.55
Social welfare measures .....	13.8	13.98	14.61	14.93	15.85	15.94	17.1	18.32	19.5	20.00
Defense <sup>1</sup> .....	12.79	12.78	13.43	13.40	14.50	14.50	16.70	16.70	17.70	17.70
Administration <sup>4</sup> .....	1.15	1.28	1.32	1.41	1.44	1.51	1.53	1.62	1.60	1.72
Loan service .....	0.10	0.10	0.10	0.10	0.20	0.20	0.20	0.20	0.2	0.20
Budgetary expenditures residual and reserve funds of the Councils of Ministers <sup>5</sup> .....	5.69	4.38	6.31	4.73	4.04	2.79	9.17	3.00	4.96	4.67

<sup>1</sup> Because of rounding, components may not add to the totals shown.<sup>2</sup> Estimated.<sup>3</sup> Probably excluding outlays for most of military R&D, space, internal security forces, procurement of major weapons systems, and possibly other defense related items.<sup>4</sup> Including financing for all local and central government agencies, such as planning and financial bodies, ministries, government departments, and the courts and judicial organs.<sup>5</sup> The budget *plan* includes Reserve Funds of the Councils of Ministers. Presumably, these are normally reclassified under the functional budget categories in the *actual* budget; that is, the *plan* measure includes both the Reserve Funds and the expenditures residual. The *actual* measure includes only the expenditures residual.

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of the State Budget <sup>1</sup>

Billion Current Rubles

1970		1971		1972		1973		1974		1975		1976		1977
Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual	Plan
144.66	154.60	160.77	164.15	173.61	173.22	181.61	183.98	194.09	197.38	208.41	214.52	223.5	226.7	238.73
63.50	74.55	77.00	80.44	82.63	84.93	86.53	91.33	95.12	99.68	102.63	110.70	114.5	118.5	123.39
23.9	30.53	29.6	32.53	32.0	34.05	33.9	36.45	36.7	40.59	42.3	47.01	48.0	NA	49.1
9.5	12.37	10.9	12.91	12.1	13.38	15.0	15.45	15.1	17.45	17.6	19.08	18.3	NA	19.4
6.1	6.26	6.0	6.39	6.3 <sup>2</sup>	6.55	6.5 <sup>2</sup>	6.80	6.80 <sup>2</sup>	3.71	4.0 <sup>2</sup>	4.43	4.4 <sup>2</sup>	NA	4.4
2.8	3.11	3.0	3.11	3.2	3.49	3.2	3.59	3.8	4.14	4.5	4.96	4.9	NA	5.3
21.2	{ 6.46	6.5 <sup>2</sup>	7.00	5.6	7.33	6.0 <sup>2</sup>	7.42	6.2	8.18	7.2	8.80	8.2	NA	9.2 <sup>2</sup>
	{ 15.82	21.0 <sup>2</sup>	18.50	23.4 <sup>2</sup>	20.13	21.9 <sup>2</sup>	21.62	26.5	25.61	27.03	26.42	30.7 <sup>2</sup>	NA	36.0 <sup>2</sup>
54.80	55.94	58.50	59.44	62.94	63.49	67.51	67.34	70.28	71.30	76.82	77.04	80.5	80.7	83.85
24.5	24.77	25.8	26.30	27.4	27.95	29.9	29.81	31.2	31.57	33.3	32.79	34.1	33.8	34.8
9.2	9.28	9.3	9.62	9.7	10.03	10.2	10.50	10.7	10.97	11.2	11.47	11.5	11.8	12.0
21.1	21.89	23.3	23.52	25.8	25.51	27.4	27.03	28.4	28.76	32.3	32.78	34.9	35.1	37.1
17.85	17.85	17.90	17.85	17.90	17.90	17.90	17.85	17.65	17.65	17.43	17.43	17.43	17.4	17.23
1.70	1.66	1.77	1.78	1.8	1.8	1.82	1.85	1.86	1.92	1.94	2.01	2.0	2.1	2.03
0.1	0.10	0.1	0.10	0.1	0.08 <sup>2</sup>	0.1	0.10 <sup>2</sup>	1.1	1.10 <sup>2</sup>	1.1	1.10 <sup>2</sup>	1.3	1.3 <sup>2</sup>	1.30
6.71	4.50	5.50	4.54	8.24	5.02	7.75	5.51	8.08	5.73	8.49	6.24	8.0	6.7	10.93



Table

## USSR: Planned Expenditures for Financing

	1965		1966		1967		1968		1969	
	Billion Current Rubles		Billion Current Rubles		Billion Current Rubles		Billion Current Rubles		Billion Current Rubles	
	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	
Total .....	75.8	100	81.8	100	86.5	100	96.3	100	116.5	100
From the budget .....	42.4	56	43.8	54	46.9	54	50.2	52	58.3	50
From other sources .....	33.4	44	38.0	46	39.6	46	46.1	48	58.2	50
Industry and construction ..	40.1	100	42.8	100	45.7	100	51.8	100	59.8	100
From the budget .....	20.6	51	22.4	52	21.9	48	23.9	46	22.2	37
From other sources .....	19.5	49	20.4	48	23.8	52	27.9	54	37.6	63
Agriculture and procure- ment <sup>1</sup> .....	12.4	100	13.2	100	13.5	100	16.4	100	17.2	100
From the budget .....	7.0	56	6.5	49	6.4	47	9.0	55	9.2	53
From other sources .....	5.4	44	6.7	51	7.1	53	7.4	45	8.0	47
Trade .....	2.9	100	3.7	100	4.2	100	5.3	100	7.9	100
From the budget .....	2.0	69	2.7	73	3.2	76	4.0	75	6.5	82
From other sources .....	0.9	31	1.0	27	1.0	24	1.3	25	1.4	18
Transportation and communications .....	8.3	100	8.4	100	8.8	100	9.2	100	11.1	100
From the budget .....	2.9	35	2.7	32	2.7	31	2.3	25	2.6	23
From other sources .....	5.4	65	5.7	68	6.1	69	6.9	75	8.5	77
Municipal economy and housing .....	4.3	100	4.6	100	4.6	100	NA	NA	5.6	100
From the budget .....	3.8	88	4.2	91	4.1	89	NA	NA	4.9	88
From other sources .....	0.5	12	0.4	9	0.4	11	NA	NA	0.7	12
Residual .....	7.8	100	9.1	100	9.7	100	NA	NA	14.9	100
From the budget .....	6.1	78	5.3	58	8.8	91	11.0	NA	12.9	87
From other sources .....	1.7	22	3.8	42	0.9	9	NA	NA	2.0	13

<sup>1</sup> Excluding collective farms.<sup>2</sup> Estimated.

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the National Economy (All-Source Financing)

1970		1971		1972		1973		1974		1975		1976		1977	
Billion Current Rubles	Percent	Billion Current Rubles	Percent	Billion Current Rubles	Percent	Billion Current Rubles	Percent	Billion Current Rubles	Percent	Billion Current Rubles	Percent	Billion Current Rubles	Percent	Billion Current Rubles	Percent
129.0	100	154.9	100	169.8	100	180.0	100	198.4	100	210.8	100	227.5	100	251.0	100
63.5	49	77.0	50	82.6	49	86.5	48	95.1	48	102.6	49	114.5	50	123.4	49
65.5	51	77.9	50	87.2	51	98.5	52	103.3	52	108.2	51	113.0	50	127.6	51
64.5	100	78.8	100	87.0	100	93.3	100	102.5	100	110.7	100	120.6	100	128.9	100
23.9	37	29.6	38	32.0	37	33.9	36	36.7	36	42.3	38	48.0	40	49.1	38
40.6	63	49.2	62	55.0	63	59.4	64	65.8	64	68.4	62	72.6	60	79.8	62
19.4	100	23.9	100	27.6	100	31.0	100	32.7	100	37.1	100	37.3	100	40.9	100
9.5	49	10.9	46	12.1	44	15.0	48	15.1	46	17.6	47	18.3	49	19.4	47
9.9	51	13.0	54	15.5	56	16.0	52	17.6	54	19.5	53	19.0	51	21.5	53
7.4	100	7.7	100	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	7.1	100
6.1	82	6.0	78	6.3 <sup>2</sup>	NA	6.5 <sup>2</sup>	NA	6.8 <sup>2</sup>	NA	4.0 <sup>2</sup>	NA	4.4 <sup>2</sup>	NA	4.4	62
1.3	18	1.7	22	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	2.7	38
12.3	100	13.3	100	14.5	100	15.8	100	17.6	100	18.8	100	19.6	100	20.5	100
2.8	23	3.0	23	3.2	22	3.2	20	3.8	22	4.5	24	4.9	25	5.3	26
9.5	77	10.3	77	11.3	78	12.6	80	13.8	78	14.3	76	14.7	75	15.2	74
NA	NA	NA	NA	6.6	100	NA	NA	7.5	100	NA	NA	9.9	100	NA	NA
NA	NA	6.5 <sup>2</sup>	NA	5.6	85	6.0 <sup>2</sup>	NA	6.2	83	7.2	NA	8.2	83	9.2 <sup>2</sup>	NA
NA	NA	NA	NA	1.0	15	NA	NA	1.3	17	NA	NA	1.7	17	NA	NA
NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
21.2	NA	21.0 <sup>2</sup>	NA	23.4 <sup>2</sup>	NA	21.9 <sup>2</sup>	NA	26.5 <sup>2</sup>	NA	27.0	NA	30.7 <sup>2</sup>	NA	36.0 <sup>2</sup>	NA
NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA

Table

## USSR: Budget Redistribution of Funds,

	1965		1966		1967		1968		1969	
	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual
Industry and construction										
Budget allocation .....	20.6	21.0	22.4	21.1	21.9	23.5	23.9	24.1	22.2	24.7
Payments from profits .....	19.4	19.0	22.4	21.4	23.6	25.7	28.5	32.6	32.4	32.6
Net contribution to the budget .....	-1.2	-2.0	0	0.3	1.7	2.2	4.6	8.5	10.2	7.9
Agriculture and procurement										
Budget allocation .....	7.0	6.8	6.5	6.3	6.4	7.0	9.0	9.3	9.2	10.9
Payments from profits .....	1.9	1.6	1.5	1.8	1.4	1.8	1.6	1.7	1.5	2.0
Net contribution to the budget .....	-5.1	-5.2	-5.0	-4.5	-5.0	-5.2	-7.4	-7.6	-7.7	-8.9
Trade										
Budget allocation .....	2.0	2.3	2.7	2.8	3.2	4.9	4.0	6.1	6.5	6.4
Payments from profits .....	0.7	0.7	0.6	0.6	0.6	1.0	1.3	1.3	0.9	1.1
Net contribution to the budget .....	-1.3	-1.6	-2.1	-2.2	-2.6	-3.9	-2.7	-4.8	-5.6	-5.3
Transportation and communications										
Budget allocation .....	2.9	2.8	2.7	2.6	2.7	2.6	2.3	2.7	2.6	2.9
Payments from profits .....	5.0	5.3	6.0	6.2	6.9	7.0	8.0	7.5	7.7	7.4
Net contribution to the budget .....	2.1	2.5	3.3	3.6	4.2	4.4	5.7	4.8	5.1	4.5
Municipal economy and housing										
Budget allocation .....	3.8	4.2	4.2	4.5	4.1	5.0	NA	5.2	4.9	5.9
Payments from profits .....	0.8	0.9	0.9	1.0	NA	1.1	1.1	1.3	0.9	1.4
Net contribution to the budget .....	-3.0	-3.3	-3.3	-3.5	NA	-3.9	NA	-3.9	-4.0	-4.5

<sup>1</sup> Because of rounding, components may not add to totals shown.<sup>2</sup> Estimated.

A-3

by Major Branch of the Economy <sup>1</sup>

Billion Current Rubles

1970		1971		1972		1973		1974		1975		1976		1977
Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual	Plan		Plan
23.9	30.5	29.6	32.5	32.0	34.1	33.9	36.5	36.7	40.6	42.3	47.0	48.0		49.1
35.1	37.5	37.5	38.2	42.1	41.4	40.2	40.1	41.3	43.0	45.8	46.3	44.3		50.3
11.2	7.0	7.6	5.7	10.1	7.3	6.3	3.6	4.6	2.4	3.5	-0.7	-3.7		1.2
9.5	12.4	10.9	12.9	12.1	13.4	15.0	15.5	15.1	17.5	17.6	19.1	18.3		19.4
1.4	2.3	1.5	2.4	1.6	2.5	1.9	2.5	2.0	2.6	1.8	2.5	1.9		2.2
-8.1	-10.1	-9.4	-10.5	-10.5	-10.9	-13.1	-13.0	-13.1	-14.9	-15.8	-16.6	-16.4		-17.2
6.1	6.3	6.0	6.4	6.3 <sup>2</sup>	6.6	6.5 <sup>2</sup>	6.8	6.8 <sup>2</sup>	3.7	4.0 <sup>2</sup>	4.4	4.42		4.4
1.1	1.3	1.0	1.3	1.3	1.5	NA	1.9	1.4	1.8	NA	1.9	NA		1.7
-5.0	-5.0	-5.0	-5.1	-5.0 <sup>2</sup>	-5.1	NA	-4.9	-5.4 <sup>2</sup>	-1.9	NA	-2.5	NA		-2.7
2.8	3.1	3.0	3.1	3.2	3.5	3.2	3.6	3.8	4.1	4.5	5.0	4.9		5.3
7.5	7.6	8.0	7.9	8.1	8.4	8.3	8.7	8.4	9.4	9.4	10.5	10.1		11.7
4.7	4.5	5.0	4.8	4.9	4.9	5.1	5.1	4.6	5.3	4.9	5.5	5.2		6.4
NA	6.5	6.5 <sup>2</sup>	7.0	5.6	7.3	6.0 <sup>2</sup>	7.4	6.2	8.2	7.2	8.8	8.2		9.2 <sup>2</sup>
1.1	1.6	1.3	1.9	1.6	2.0	1.6	2.2	1.7	2.4	NA	2.5	1.6		1.8
NA	-4.9	-5.2 <sup>2</sup>	-5.1	-4.0	-5.3	-4.4 <sup>2</sup>	-5.2	-4.5	-5.8	NA	-6.3	-6.6		-7.4 <sup>2</sup>

Table

## USSR: Expenditures for Social-Cultural

	1965		1966		1967		1968		1969	
	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual
Total .....	37.45	38.16	40.38	40.76	42.92	43.48	45.81	48.31	51.12	51.86
Education, science, and culture <sup>1</sup> .....	17.2	17.51	18.71	18.73	19.67	20.09	21.0	21.85	23.2	23.31
General education .....	NA	8.31	NA	8.75	NA	9.13	9.5	9.89	NA	10.36
Cultural-enlightenment work .....	NA	0.42	NA	0.47	NA	0.52	NA	0.58	NA	0.65
Training of cadres .....	NA	3.25	NA	3.56	3.7	3.95	3.9	4.29	4.3	4.60
Science .....	NA	4.13	NA	4.49	NA	4.93	NA	5.40 <sup>2</sup>	NA	5.77 <sup>2</sup>
Publishing .....	NA	0.08	NA	0.10	NA	0.12	NA	0.12	NA	0.12
Art and broadcasting .....	NA	0.30	NA	0.36	NA	0.43	NA	0.50	NA	0.57
Health and physical culture <sup>1</sup> .....	6.5	6.67	7.06	7.10	7.40	7.45	7.7	8.14	8.4	8.55
Health .....	NA	6.39	NA	6.80	NA	7.12	NA	7.78	NA	8.16
Physical culture .....	NA	0.04	NA	0.04	NA	0.05	NA	0.05	NA	0.04
Social welfare measures .....	13.8	13.98	14.61	14.93	15.85	15.94	17.1	18.32	19.5	20.00
Social security, of which: .....	NA	9.05	NA	9.74	NA	10.37	NA	11.26	NA	12.02
From state social insurance .....	NA	6.50	NA	7.14	NA	7.75	NA	8.38	NA	9.05
State social insurance .....	NA	4.04	NA	4.33	NA	4.72	NA	5.47	NA	6.29
Aid to mothers .....	NA	0.46	NA	0.46	NA	0.45	NA	0.45	NA	0.44
For collective farmers' welfare fund .....	NA	0.44	NA	0.40	NA	0.40	NA	1.14	NA	1.26

<sup>1</sup> Components exclude capital investment.<sup>2</sup> Estimated.

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## Measures in the State Budget

Billion Current Rubles													
1970		1971		1972		1973		1974		1975		1976	
Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual
54.80	55.94	58.50	59.42	62.94	63.48	67.51	67.34	70.28	71.30	76.82	77.04	80.5	80.74
24.5	24.77	25.8	26.30	27.4	27.95	29.9	29.81	31.2	31.57	33.2	32.79	34.1	33.79
NA	10.75	NA	11.23	10.0	11.88	NA	12.91	NA	13.37	NA	13.85	NA	14.28
NA	0.70	NA	0.75	NA	0.80	NA	0.87	NA	0.93	NA	0.98	NA	1.04
NA	4.85	NA	5.15	5.2	5.57	5.7	6.17	NA	6.63	6.5	7.02	NA	7.39
NA	6.43	NA	6.92	NA	7.30	NA	7.50	NA	7.90	NA	7.89	NA	7.90
NA	0.12	NA	0.12	NA	0.11	NA	0.12	NA	0.14	NA	0.14	NA	0.15
NA	0.63	NA	0.71	NA	0.80	NA	0.86	NA	0.97	NA	1.12	NA	1.18
9.2	9.28	9.3	9.62	9.7	10.03	10.2	10.50	10.7	10.97	11.2	11.47	11.5	11.85
NA	8.74	NA	8.98	NA	9.39	NA	9.89	NA	10.08	NA	10.49	NA	10.85
NA	0.05	NA	0.05	NA	0.05	NA	0.06	NA	0.06	NA	0.07	NA	0.07
21.1	21.89	23.3	23.50	25.8	25.50	27.4	27.03	28.4	28.76	32.3	32.78	34.9	35.10
NA	12.74	NA	13.62	NA	14.45	NA	15.11	NA	16.08	NA	18.17	NA	19.21
NA	9.77	NA	10.58	NA	11.35	NA	11.93	NA	12.73	NA	14.34	NA	15.24
NA	7.33	NA	7.78	NA	8.30	NA	9.12	NA	9.89	NA	11.85	NA	12.75
NA	0.44	NA	0.43	NA	0.42	NA	0.41	NA	0.40	NA	0.39	NA	0.37
NA	1.38	NA	1.69	NA	2.34	NA	2.40	NA	2.39	NA	2.38	NA	2.77

Table

USSR: Revenues of

	1965		1966		1967		1968		1969	
	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual
Total .....	99.70	102.32	105.54	106.30	110.25	117.16	123.91	130.84	134.10	140.03
Social sector .....	91.79	93.89	96.65	97.02	100.37	107.09	112.77	119.44	121.64	127.41
Turnover tax receipts .....	39.1	38.66	39.5	39.31	40.70	40.06	42.2	40.80	43.0	44.54
Payments from profits .....	31.6	30.87	35.2	35.67	37.18	41.82	43.8	48.00	48.0	48.02
Income tax on organiza-										
tions .....	1.5	1.54	1.1	1.15	1.12	1.27				
Social insurance receipts ....	5.5	5.56	5.9	6.00	6.29	6.39	26.8	{ 1.15 }	30.6	{ 1.14 }
Residual .....	14.1	17.26	15.0	14.89	15.08	17.55		{ 7.12 }		{ 7.78 }
Private sector .....	7.91	8.43	8.89	9.27	9.88	10.07	11.14	{ 22.37 }	12.46	{ 25.93 }
State taxes on the										
population .....	7.3	7.70	8.1	8.44	9.04	9.32	10.3	10.50	11.5	11.60
State loans .....										
Local taxes and										
lotteries .....	} 0.6	{ 0.18 }	0.8	{ 0.22 }	0.26	0.13		{ 0.28 }		{ 0.36 }
Budget surplus .....	0.16	0.70	0.15	0.72	0.23	1.92	0.31	{ 0.62 }	0.20	{ 0.66 }

<sup>1</sup>Because of rounding, components may not add to the totals shown.  
<sup>2</sup>Estimated.

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the State Budget<sup>1</sup>

Billion Current Rubles

1970		1971		1972		1973		1974		1975		1976		1977
Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual	Plan
144.93	156.70	160.97	165.96	173.81	175.11	181.84	187.78	194.30	201.32	208.60	218.77	223.7	232.2	238.94
131.37	142.86	146.11	151.25	157.82	159.30	165.26	170.87	176.57	183.03	189.67	199.09	202.9	211.3	216.7
46.6	49.38	54.1	54.46	57.4	55.57	57.9	59.14	62.0	63.47	66.1	66.61	69.9	70.7	73.3
50.4	54.16	54.8	55.56	60.7	60.03	60.6	60.03	62.6	64.43	69.1	69.71	69.9	70.6	78.4
34.3	{ 1.23 8.20 29.89 }	37.2	{ 1.40 8.71 31.12 }	39.7	{ 1.35 9.14 33.21 }	46.8	{ 1.51 9.75 40.44 }	52.0	{ 1.47 10.41 43.25 }	54.5	{ 1.46 11.06 50.25 }	50.1	56.3	50.5
13.56	13.84	14.86	14.70	15.99	15.81	16.58	16.91	17.73	18.29	18.93	19.68	20.8	20.9	22.2
12.7	12.74	13.7	13.72	15.0	14.79	15.6	15.83	16.7	17.12	17.9	18.36	19.6	19.6	20.9
0.9	{ 0.47 0.63 }	1.2	{ 0.33 0.65 }	1.0	{ 0.34 0.68 }	1.0	{ 0.38 0.70 }	1.0	{ 0.44 0.73 }	1.0	{ 0.56 0.76 }	1.2	{ 0.6 0.7 }	1.3
0.27	2.10	0.20	1.81	0.20	1.89	0.23	3.80	0.21	3.94	0.19	4.25	0.2	5.5	0.21



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CENTRAL INTELLIGENCE AGENCY

WASHINGTON, D.C. 20505

*John*  
*Vita*  
ER 77-10529

1 March 1978

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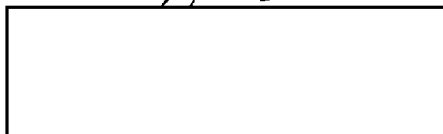
Dear Larry:

Enclosed are six copies of one of the two reports you recently requested for passing to various professors in your area:

ER 77-10529, The Soviet State Budget Since 1965, December 1977.

The other report -- ER IR 75-3, The Economic Impact of Soviet Military Spending, April 1975 -- unfortunately is restricted to official users only. In its stead I propose to send you Part III of this year's hearings on the Allocation of Resources in the Soviet Union and China before the Joint Economic Committee. This document contains the testimony of Admiral Turner on the same subject matter and summarizes the essential findings of the official use only document. Copies of the Congressional report will be forwarded to you when available, probably in a week or two.

Sincerely,



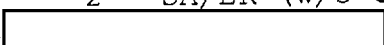
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OER requests that the attached copy of ER 77-10529, The Soviet State Budget Since 1965, UNCLASSIFIED, December 1977, be forwarded to the NFAC Representative for further transmittal [redacted]. An additional copy is attached for the NFAC Representative.

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2. This Office considers that release of this publication [Redacted]

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*Handwritten signature*  
*J. G.*

*ER 77-10529*

2 May 1978

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Dear Larry:

In my note to you of 1 March I transmitted six copies of ER 77-10529 and promised to send you Part III of this year's Hearings on the Allocation of Resources in the Soviet Union and China before the Joint Economic Committee. The document has just become available, and I am enclosing six copies.

Sincerely,



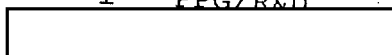
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