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SUBJECT Comments on Soviet Military Expenditures

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Managers of military equipment and military construction enterprises and trusts are in a privileged position in the USSR. Requests for additional funds to meet payroll or material requirements are provided with very little delay; while the Ministry of Finance has to decide from what categories of the Financial Plan to shift the funds to cover above-plan Defense Ministry expenditures.

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Industries producing goods for military as well as for civilian consumption (such as textile and tractor industries), as a rule, supply goods to the Ministry of Defense at prices below cost, and add the difference to the cost of the civilian segment of their products. Since turn-over tax on civilian goods is generally a fixed percentage of costs, such a pricing policy enhances the State revenue sources and further limits the effective demands of the population. Armament industries are not required to show profits, since profits would only increase the costs to the State.

war economy have been derived

all the indicated increase in industrial and transportation profits in the Soviet economy are derived from consumers' goods industries, or from the transportation of consumers' goods

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and civilians. Increased profits during the post-war economy in the Soviet Union could have been accomplished through: Lowering the quality of some segments of consumers' goods; increased labor productivity in the consumers' goods industries; increase of prices to consumers (in goods and services). 25X1

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The publicized 20 to 35% price reduction in 1950, of such industrial products as iron, steel, and cement constitute a deliberate attempt to fool people abroad. While some price reductions to the Union-important industries are possible, the 20 to 35% reduction referred to may have applied to cement, iron, and steel products sold to the public at tremendously inflated retail prices through turn-over tax. Thus it is quite possible that prices on nails, hardware and cement sold to collective farmers in small quantities were reduced by the publicized figures. Price reductions which have taken place in consumers' goods since 1947, have been effected by the reduction of turn-over tax rates. Turn-over tax rates during the World War II and post-war periods, up to 1947, were increased over 100%, according to published revenue figures.

All military establishments buy food and other supplies at wholesale prices which include profits, but do not include turn-over tax. 25X1

the Soviet military establishments are paying turnover tax on their purchases of food and supplies, then such a statement constitutes deliberate fraud. One must understand that the primary function of the turnover tax in the Soviet Union is to sponge up all the currency put into circulation, through wages and salaries, for which no consumers' goods are available for the public, and by this means to draw the currency back into the banking system. Since about 70% of all goods produced in the Soviet Union goes to the government in the form of armaments or in the form of construction, machinery, and materials for armament production, this vast sum representing 70% of costs in the form of wages, salaries, upkeep and administration, must be mopped up, mostly through a turn-over tax on consumers' goods, or material and equipment going into the production of civilian goods. 25X1

Every economist and financial man should realize that the Soviet published military budget is formulated with two main objectives: to reflect as small a percentage of the total budget as possible for domestic as well as for foreign propaganda, and to inflate the other budgetary categories, where hidden military expenditures are included, in order to reduce the percentage magnitude of the announced military budget. It would be stupid for the Soviet government to make purchases of food and supplies with turnover tax. It would amount to taking money out of one account and putting it into another, while at the same time inflating its military expenditure account. In the case of food supplies, the Ministry of Defense pays the wholesale output or marketing price, which includes profits but does not include the turnover tax. In purchasing other supplies for the armed forces, such as clothing, footwear, and other personal items, these are bought on the average about 30% below production costs. The difference is shifted by the manufacturers to the civilian section in arriving at the production costs of commodities. Thus every enterprise has a so-called military price list.

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These price lists are issued to Company Quartermaster Sergeants, and they reflect the prices charged to the military personnel in case of loss or other disposal of their equipment as a penalty price; they have nothing whatsoever to do with the cost to the Ministry of Defense. Costs to the Ministry of Defense are from 12 to 24 times less than those indicated by the "penalty" price lists. 25X1

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To my knowledge the prices paid by the Defense Ministry to the Ministry of Food Supplies and other ministries for clothing, footwear, etc have remained at the same the level as in 1940. However, "penalty" prices have about doubled. 25X1

Of course, there are some 12 categories of menus of military mess within the Soviet Union; Army, Air Force, Navy, schools, hospitals, etc. Those Soviet forces placed in occupied areas, living at the expense of the Satellites, certainly are fed much better than those in the Soviet Union, since the Satellite countries have to bear the cost of maintenance of the Soviet military personnel.

In the purchase of raw and fabricated materials for the production of military equipment, the ratio is 2 rubles to \$1; in the purchase of finished products the ratio is about 3 rubles to \$1, due to US superior skills in fields of production and in administration and organization. In the case of military aircraft the ratio may be about 3.5 rubles to \$1. 25X1

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