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~~C O N F I D E N T I A L~~

INTELLIGENCE MEMORANDUM

THE 1959 SOVIET BUDGET

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CENTRAL INTELLIGENCE AGENCY

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THE 1959 SOVIET BUDGET*

Summary and Conclusions

The Soviet state budget for 1959, the first year of the Seven Year Plan (1959-65), shows an increase of more than 12 percent in the levels of expenditure and revenue compared with the 1958 plan. Such increases indicate an expansion of financial activity which is striking, given the relatively modest goals of the new Seven Year Plan. It appears that increased budget resources will be directed somewhat more toward expansion of the economy (and possibly of the military establishment) and less toward social welfare than in 1956 and 1957. The significance of the budget increases, however, is somewhat obscured at present by the lack of detailed information concerning both the size and the changed composition of specific budget categories.

A particularly sharp increase in the 1959 budget appears in the unspecified portion of the budget category Financing the National Economy.** This increase seems to be caused mainly by two recently introduced accounting shifts. The first of these shifts is a result of the 1958 reorganization of agriculture. The abolition of the machine tractor stations (MTS's) permitted a large decrease in the budget allocation to Agriculture, but, at the same time, the higher purchase prices for agricultural produce required increased grants to state procurement organizations, who are allocated funds from the unspecified portion of the category Financing the National Economy. The second accounting change concerns modifications in the planning of nonproductive investment which apparently will result in a shift of housing investment funds from the sector Industry to the unspecified residual. When these shifts are taken into account, it appears that the absolute size of the residual has remained fairly stable since 1957.

The over-all expansion of capital investment in the Soviet economy continues to be impressive. Centralized capital investment, from budget and enterprise own funds,*** is planned to increase by 14 percent. The sharp rise in investment allocations in 1959, especially in industry, which is in line with the directives of the Seven Year Plan, suggests that the present assessment by Soviet planners of future investment needs

* The estimates and conclusions in this memorandum represent the best judgment of this Office as of 15 June 1959.

** See the third footnote, p. 3, below.

*** See footnote c, Table 2, p. 8, below.

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is based on more realistic assumptions than those prevalent when the now defunct Sixth Five Year Plan was drawn up.

The announced defense allocation will continue at virtually the same level as that which has prevailed since 1956. The general growth of budget expenditures, such as noninvestment allocations to industry, however, is sufficiently large to permit continuation of the rapid growth of those military programs financed under other budgetary categories. Indicative of this is the announced allocation for scientific research institutions (under Education) which will increase in 1959 by 14 percent over the comparable 1958 figure. In all likelihood, substantial outlays for military-oriented research are included in this allocation.

The consumer is not slated to receive any significantly increased benefits in 1959 but will continue to profit from the considerable concessions granted during 1957 and 1958. In general, outlays for social-welfare measures (education, health, pensions, and grants) will increase rather slowly in 1959. The brightest prospect for the consumer is the continued emphasis on housing construction; funds allocated to housing will continue to increase although at a rate slower than that planned in 1957 and 1958.

The significance of changes in budgetary income and outlay between 1958 and 1959 is obscured by two major difficulties. In the first place, there has been a rather large gap in recent years between plan figures and subsequent fulfillment totals. The almost complete absence of fulfillment data for 1958, plus the prospect of substantial overexpenditure in 1959, obscures real trends, especially within the category Financing the National Economy. Second, there is no doubt that recent reorganization of Soviet industry and agriculture has caused changes in budgetary procedures and categories. The precise nature of these changes, however, cannot be determined at present.

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I. Introduction

Revenues and expenditures in the 1959 Soviet state budget, as presented by Finance Minister Arseniy Zverev and approved by the Supreme Soviet in December 1958, are planned to increase by more than 12 percent compared with the 1958 plan budget and by approximately 10 percent compared with the 1958 actual budget. The 1959 increase is unusually high. Planned increases in budget revenues and expenditures since 1955 seldom have exceeded 5 percent annually and usually have been considerably less. Prices in the USSR have changed recently for some selected items, it is true, but the general price level has not risen enough to account for any significant portion of the increased budget totals. Some part of the budget increases may be the result of accounting changes, which obscure real trends in 1959.

The general pattern of expenditures and revenues planned for 1959 does not differ basically from that planned for 1958 (see Table 1**). The largest planned increase in expenditures, amounting to 20 percent, occurs in the category Financing the National Economy,*** which will account for more than 40 percent of total expenditures in 1959. Other more modest absolute increases are planned in the two categories Social-Cultural Measures and Reserve Funds, Councils of Ministers. The announced defense outlay remains virtually unchanged in absolute terms; as a percentage of total it shows a decline. Significant shifts within these categories will be discussed in subsequent parts of this report.

On the revenue side, both the chief sources of revenue, profits transfers and turnover tax, are planned to increase sharply, with the increase in profits transfers of 19 percent especially notable. The category Direct Taxes on the Population is planned to provide the same share of budgetary revenue in 1959 as in 1958 -- that is, 7.7 percent. Unspecified revenues show an unexplained increase of almost 20 percent in 1959 compared with 1958, possibly reflecting government receipts from the sale of the MTS machinery to the collective farms. The planned budget surplus of 15.7 billion rubles**** is approximately the same as that planned for 1958 (15.2 billion rubles) but less than the actual 1958 surplus (22.7 billion rubles).

** Table 1 follows on p. 4.

*** The budget category Financing the National Economy consists of funds for investment, capital repair, expansion of working capital, subsidies, and other operational expenditures of state enterprises and organizations, including state farms but excluding collective farms.

**** The official Soviet exchange rate is 4 rubles to US \$1 for merchandise transactions and 10 rubles to US \$1 for tourist and other "invisible" transactions. Although neither of these rates is appropriate to convert Soviet budgetary entries from rubles to dollars, they do suggest the general order of magnitude.

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Table 1

Planned Budget Revenues and Expenditures in the USSR
1958 and 1959

Revenues	1958 a/		1959 b/	
	Billion Rubles	Percent of Total	Billion Rubles	Percent of Total
Turnover Tax	301.5	46.9	333.0	46.0
Profits Transfers	130.3	20.3	154.9	21.4
Income Taxes on Cooperative Enterprises	15.6	2.4	19.6	2.7
Direct Taxes on the Population	49.8	7.7	56.0	7.7
Machine Tractor Station Revenue	11.9	1.9	1.5	0.2
Social Insurance Receipts	33.5	20.8	N.A.	22.0
State Loans	17.6		N.A.	
Other revenues	82.7		N.A.	
Total	<u>642.9</u>	<u>100.0</u>	<u>723.3</u>	<u>100.0</u>
Expenditures				
Financing the National Economy	257.2	41.0	308.9	43.7
Social-Cultural Measures	212.8	33.9	232.2	32.8
Defense	96.3	15.3	96.1	13.6
Administration	11.9	1.9	11.5	1.6
Reserve Funds, Councils of Ministers	16.7	2.7	21.8	3.1
Other expenditures	32.8	5.2	37.1	5.2
Total	<u>627.7</u>	<u>100.0</u>	<u>707.6</u>	<u>100.0</u>

a.

b.

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In December 1957, in response to the request of the Economic Commission of the Soviet of Nationalities (one of the houses of the Supreme Soviet), Finance Minister Zverev announced that the Ministry of Finance had worked out plans for a new budget law but that further work and clarification had been found necessary. In December 1958, at the Supreme Soviet discussions of the budget, no mention was made either of the Economic Commission or of a new budget law. The recent reorganization of industry and agriculture would seem to require a new budget law or, at the very least, extensive modification of the existing budget law, but, in the absence of any information on the subject, it is impossible to tell what changes may have taken place.

For the second consecutive year, the budget was presented to the Supreme Soviet and approved before the beginning of the Soviet fiscal year (1 January). The more usual practice in the USSR has been to present the budget in the spring, when the Soviet fiscal year was already well underway. In contrast to the procedure followed in 1957 and 1958, however, when the state budget was presented along with the annual economy plan, the 1959 budget was presented alone. The 1959 economic plan has not yet been announced.

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II. Financing the National Economy

A. General

The budget category Financing the National Economy shows a particularly sharp increase of 52 billion rubles compared with the 1958 plan. When this category is divided by sector of the economy (see Table 2*) it may be seen that, although the figures are not exactly comparable, the allocation to industry will grow 13 percent, the allocation to agriculture will drop significantly, and the allocation to transport and communications will increase slightly. The unusually large increase -- from 60 billion to 108 billion rubles -- occurs in the unspecified outlay part of the category and appears to be a result mainly of various accounting shifts. There are three organizational and accounting changes which must be taken into account in order to interpret the 1959 allocation to Financing the National Economy. These are as follows:

1. The decrease in the allocation to agriculture (reflecting the abolition of the MTS's) accompanied by increased grants to state procurement organizations (reflecting the new higher prices paid to collective farms for agricultural produce).
2. Modifications in the planning of nonproductive investment, which apparently will result in a shift of housing investment from the industry category to the unspecified residual.
3. Reporting of enterprise profits and payments of profit taxes directly to the Ministry of Finance, rather than through intermediaries such as the old industrial ministries.

B. The Unspecified Residual

In Table 3,** actual expenditures for the national economy, 1955-58, are shown, and the unspecified outlay has been broken down into some of its components. Tentative estimates of the probable size of these components, along with certain assumptions concerning actual rather than plan outlays in 1958, suggest that, after a sharp increase in 1957, unexplained residual outlays have remained fairly stable at the level of 30 billion to 35 billion rubles.***

* Table 2 follows on p. 8.

** Table 3 follows on p. 9.

*** Text continued on p. 10.

Table 2

Plan for Financing the National Economy of the USSR
1955-59

	Billion Current Rubles				
	1955	1956	1957	1958	1959
Budget funds <u>a/</u>	222.3	237.3	244.7	257.2	308.9
Industry	111.8	110.0	118.4	129.0	145.3
Heavy	101.2	100.9	103.5	N.A.	N.A.
Light	10.6	9.1	14.9	N.A.	N.A.
Agriculture	55.1	48.6	52.9	53.4	30.3
Transport and communications	23.0	21.8	18.0	14.4 <u>b/</u>	25.0
Unspecified outlay	32.4	56.9	55.4	60.4	108.3
Enterprise own funds <u>c/</u>	112.9	109.7	131.5	155.7	175.6
Total	335.2	347.0	376.2	412.9	484.5

a. See Table 9, p. 31, below.

b. Not comparable to figures for other years, because enterprises of republic jurisdiction are excluded.

c. Enterprise own funds (sobstvennyye sredstva predpriyatiya) consist mainly of retained profits and amortization allowances.

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Table 3

Allocations to Financing the National Economy of the USSR a/
1955-58 Actual and 1959 Plan

	Billion Current Rubles			
	Actual		1958	1959 Plan
	1955	1956	1957	
Budget funds	233	245	267	(274 to 285) b/ 309
Industry	110	128	131	(140 to 145) 145
Agriculture	51	49	52	(53) 30
Transport and communications	19	22	(18)	(19) 25
Unspecified outlay	53	46	66	(62 to 68) 106
Trade and procurement	18	19	(21)	(23) (25)
Rebates for price differentials	(15)	0	0	(15 to 20) 0 c/
Municipal economy	9	11	(13)	(15) (30 to 35)
Other (residual)	(11)	16	32	(24 to 30) (29 to 39)

a. For sources, see B, above, and Table 9, p. 31, below.

b. Figures in parentheses are estimates.

c. Rebates for price differentials are included in the allocation to agriculture and were not separately estimated (see B, above).

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The first item under the unspecified outlay is the combined allocation to trade and procurement, which increased from 10 billion rubles in 1950 to 18 billion rubles in 1955 and 19 billion rubles in 1956. No data are available concerning the size of these allocations in more recent years. On the assumption that they have continued to increase substantially, however, an estimate of 25 billion rubles was made for 1959.

The procurement allocation does not include exceptional rebates to procurement organizations to cover various types of price differentials. These rebates, the second item under the unspecified outlay in Table 3,* were particularly important in 1955 and in 1958-59, when increases in prices paid by procurement organizations for agricultural produce were put into effect without any corresponding increase in the wholesale or retail price levels of this produce. The rebates were estimated, on the basis of the 1956 plan, at 15 billion rubles in 1955. An increase in wholesale prices in 1956 (brought about by a reduction in the turnover tax rate) made rebates no longer necessary. In 1958, prices paid to collective farms for agricultural produce were again raised, requiring additional outlays from the budget to procurement organizations. Such outlays for 1958 were assumed to be equal to funds originally allocated to the MTS's but no longer needed for that purpose (see III, C, below). This assumption may well result in an understatement, because the 1958 crop was unusually large and may have necessitated greater outlays by state procurement organizations than originally planned.

The impact of the new procurement prices for agricultural produce on the 1959 budget is not completely clear. As long as the wholesale and retail prices of agricultural goods remain unchanged at the same time that prices paid to the farms have increased, then agricultural procurement organizations will continue to suffer significant losses, which must be covered by allocations from the budget. It has been announced repeatedly in the Soviet press that retail prices of agricultural goods will not be raised as a result of the new higher state purchase prices. The fact that turnover taxes were planned in 1959 to increase more rapidly than retail trade turnover (see IV, below) indicates that no significant increases in wholesale prices were taken into account when the budget plan was drawn up (turnover tax being the main difference between wholesale and retail prices). It therefore appears that the 1959 budget, as originally drawn up, provides for rather sizable rebates to procurement organizations, which appear in the unspecified portion of the category Financing the National Economy.

* P. 9, above.

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According to the terms of the budget law, the Council of Ministers was entrusted with the responsibility for adjusting budget items in line with the new wholesale prices for agricultural produce, which were scheduled to go into effect 1 January 1959. If in fact wholesale prices were raised as of 1 January, then the budget will show a decrease from plan in both revenue (by a decline in turnover tax receipts) and expenditure (by reduction in the size of the grants to procurement organizations).

The estimate for 1959 rebates to procurement agencies, 15 billion to 20 billion rubles, is necessarily rough; it is assumed that rebates for price differentials were planned approximately equal to the net decline in budget outlays for the MTS's (see III, C, below). That it may be somewhat higher than this estimate is suggested by information concerning collective farm income, an alternative indication of the effect of the new prices. Collective farms will receive in 1959 about 50 billion rubles more income than they received in 1957. This figure reflects the increase in the size of the harvest, but it also gives some quantitative indication of the effect of the new higher prices. Therefore, the estimate in Table 3* appears to be a conservative one.

Data concerning the size of the budget allocation to the municipal economy are available only for the years 1955 and 1956, when the figures were 9 billion and 11 billion rubles, respectively. The increased emphasis on housing since then suggests that allocations have risen rather sharply. It appears likely, moreover, that a recent accounting shift may have resulted in much wider coverage under this category as of 1959. Formerly, housing investment under the jurisdiction of industrial ministries was included in statistics for investment in industry, whereas that under the jurisdiction of municipalities was included in statistics for investment in the municipal economy. As of 1 January 1959, however, a new system of planning capital investment was scheduled to go into effect whereby productive investment would be kept separate from nonproductive (housing and social-cultural) investment. Under the new scheme, except for that housing under jurisdiction of some remaining ministries and departments (mainly transport), housing would be the responsibility of local soviets. Data in the 1959 investment plan suggest that, in fact, there has been a shift in outlays from the sector Industry to the sector Other. The allocation from the budget for investment in industry will increase between 1958 and 1959 from 84 billion to 89 billion rubles (only 5 billion rubles) whereas other budget-financed investment will increase from 19 billion to 45 billion rubles (26 billion rubles), suggesting that nonproductive investment formerly included in the sector Industry has been moved to

* P. 9, above.

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the sector Other (see Table 4*). It may further be speculated that, if this practice is followed in the listing of budget outlays in the investment plan, it is also used in the budget plan itself. Of concern here is the shift of investment funds for housing, which would appear probably under the allocation to the municipal economy and may amount to 10 billion to 15 billion rubles. Other nonproductive investment (health and education) presumably would be shifted to the budget category Social-Cultural Measures.

In Table 3,** outlays for the municipal economy have been estimated, to be 13 billion rubles in 1957, 15 billion rubles in 1958, and 30 billion to 35 billion rubles in 1959.

When the above estimates are subtracted from the unspecified outlay, a smaller unexplained portion is left, which has remained fairly stable since 1957. Thus most of the increase in the announced unspecified outlay in 1959 appears to be explainable as accounting shifts. The absolute size of the residual -- 11 billion to 16 billion rubles in 1955 and 1956 -- is an entirely reasonable figure to cover outlays for state reserves, gold purchases, and other miscellaneous items. In 1957 the residual suddenly doubled and reached a level of 32 billion rubles. Interestingly enough, in that year the allocation to industry remained virtually unchanged. When it is remembered that 1957 was the year of the industrial reorganization, it seems possible that some items were shifted from the sector Industry to the sector Other (residual). Since that time, the level of the residual, calculated in this way, has been relatively unchanged.

It is sometimes speculated that residual outlays under the unspecified sectors reflect military spending (perhaps stockpiling of weapons and the like). It is true that military items have been included in the category Financing the National Economy in the past and that the USSR has embarked on costly new military programs which are not reflected in the explicit defense allocation. Before concluding, however, that unexplained items in this category indicate the size of or changes in military spending, it must be kept in mind that many military outlays, particularly of a research and developmental nature, which do occur in the category Financing the National Economy are found within specific sectors (such as industry) rather than in the unspecified sectoral allocation.

C. Conclusions

In the face of the recent far-reaching reorganization of the administrative structure of the national economy, USSR, it is logical

* P. 15, below.

** P. 9, above.

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to assume that significant changes have taken place in the classification of expenditures within the budget category Financing the National Economy. On the surface, however, budget categories have remained the same, although the size of some items has fluctuated unaccountably. The question then arises as to the comparability of expenditures in the category Financing the National Economy in recent years.

For example, the system of accounting for profits and profits taxes has been reformed markedly in recent years. The decentralized account of profits taxes, which was introduced on a limited scale in 1955, makes each enterprise responsible directly to state financial organs for the payment of profits transfers (in contrast to the centralized system whereby the trust or ministry is responsible). The new system was introduced to insure more direct control by financial authorities over the day-by-day operations of each enterprise and also to prevent ministries or trusts from abusing their right to redistribute profits of enterprises within their jurisdiction. The reorganization of industrial management in 1957 gave an impetus to the development of the decentralized system, so that by 1958 it had become fairly widespread. Moreover, as a result of the reorganization of industry in 1957, any redistribution of profit from one enterprise to another now takes place within the sovnarkhoz rather than within the ministry or trust -- that is, it occurs within a certain territorial unit rather than within a sector of the economy. That this process has had some effect on budget totals of profits taxes and subsidies seems perfectly clear; however, the problem of measuring the effect is much more difficult. It may be postulated that initially (in 1956 and 1957) the new system of profits accounting increased the profits total for the national economy, as reported by Finance Minister Zverev, but necessitated larger subsidies from the budget, thus in effect inflating budget totals relative to other years. The rapid growth in profits and in outlays to industry for operational expenditures (which include subsidies) supports this proposition. Certainly the situation in this respect, however, was stabilized by 1958; yet profits in industry, as well as outlays to industry for operational expenditures, continue to increase rapidly.

The increase in allocation to industry for operational expenditures apparently also reflects outlays for research and development. In these times of rapid technological change, the development of new products, particularly weapons and weapons systems, has proved very costly. The fact that total budget allocations to industry are planned to increase by 15 billion rubles in 1959, of which the major portion (10 billion rubles) is an increase in operational expenditures, probably may be explained by a growth in developmental outlays.

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Analysis of the category Financing the National Economy in recent years is also complicated by the rather large gap between plan figures and subsequent fulfillment totals. The tendency in recent years has been for rather sizable overexpenditures in the total for this category (see discussion in III, B, below). The absence of any fulfillment data for 1958 (except for total revenues and expenditures), plus the prospect of substantial overfulfillment in 1959, obscures trends within this category and makes the use of the Soviet budget as an economic indicator difficult.

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III. Capital Investment

A. General

The over-all expansion of capital investment in the USSR continues to be impressive (see Table 4). Centralized capital investment, from budget and enterprise own funds, is planned to increase by 14 percent in 1959. Planned decentralized investment figures are not available for 1959, but in both 1957 and 1958 they increased by one-third above the preceding year. The sharp rise in investment allocations in 1959, which is in line with the directives of the Seven Year Plan, suggests that the present assessment by Soviet planners of future investment needs is based on more realistic assumptions than those prevalent when the now defunct Sixth Five Year Plan was drawn up.

Table 4

Plan for the Financing of Capital Investment in the USSR a/
1958 and 1959

Billion Current Rubles						
	1958 <u>b/</u>			1959 <u>c/</u>		
	Total	Budget	Enter- prise Own Funds	Total	Budget	Enter- prise Own Funds
Centralized capital investment	203.8	142.7	61.1	233.1	163.7	69.4
Industry	129.9	84.3	45.6	135.5	89.2	46.3
Agriculture	29.7	25.9	3.8	19.1	15.2	3.9
Transport	19.8	13.2	6.6	23.3	14.4	8.9
Other	24.4	19.3	5.1	55.2	44.9	10.3
Decentralized capital investment	30.0 <u>d/</u>			N.A.		

a. Excluding collective farm investment.

b.

c.

d. Actual, not plan.

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At the same time that investment requirements are expanding rapidly, Soviet officials continue to express concern over the financing and control of investment. One concern has been the rapid growth of decentralized investment, for which the financial resources and the necessary complement of physical materials are not coordinated at the center. Apparently the large increase in decentralized investment in 1958 led to some diversion of investment resources away from the centrally planned programs in favor of locally planned programs. In view of this fact, decentralized investment in all probability will grow less rapidly in the future. The numerous deputies at the December session of the Supreme Soviet who asked that local industry be allowed to retain a larger share of profit for reinvestment found their pleas sternly rejected. According to Finance Minister Zverev, recent practice has shown that profits left to local industry for its further development are often used for "other ends."

The budget message and debate indicated that no satisfactory solutions have been found for a series of problems which continue to plague financial planning. For example, it was found impossible to decrease the level of finished but uninstalled equipment, which was attacked as unnecessarily high by Zverev last year. On the contrary, the level of uninstalled equipment actually rose slightly between January and June of last year. In another problem area, enterprise holdings of above-plan reserves of stocks and materials continue to be undesirably high. Although costs of production have been decreasing for most activities, in some areas, notably housing, costs are not going down as planned and may even be rising.

Investment in state housing will continue to increase in 1959 after the initial push in 1957. The 1959 plan allocation of funds to state housing is 41.4 billion rubles, with which it is planned to provide 50.7 million square meters (sq m) of housing space (the 1958 plan allocation was 36.8 billion rubles). In addition, 29.1 million sq m of housing space will be provided by individual private housing construction in 1959.

B. Industry

The planned allocation for centralized investment in industry will increase from 129.9 billion rubles in 1958 to 135.5 billion in 1959, of which the budget-financed portion will increase from 84.3 billion to 89.2 billion rubles (see Table 4*). Such an increase appears quite modest, given the investment needs of the Seven Year Plan. It has therefore been speculated (see II, B, above), that, in accordance with the new procedure for planning capital investment which is

* P. 15, above.

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scheduled to go into effect 1 January 1959, nonproductive investment formerly included in investment under the sector Industry has been shifted to the sector Other. Thus the figures for the 2 years are not comparable, and it is necessary to either deflate the 1958 figure or inflate the 1959 figure by perhaps 10 billion to 15 billion rubles to obtain a comparable series.

In all likelihood, actual outlays from the budget for investment (and for financing the national economy as a whole) will be even greater than plan; at least this has been the case in 1956, 1957, and probably 1958, although the necessary data for 1958 have not as yet been released. This is true, particularly, of the allocation to industry. It appears that, in recent years, allocations to industry, especially investment in industry, have been planned at a minimum; subsequently during the year additional sums are allocated as the need arises. This procedure introduces an element of flexibility in financial administration, which is one aspect of the current attempt to do away with excessive rigidity in economic planning. The increased flexibility is achieved by increasing the level of the Reserve Funds of the Councils of Ministers from 14 billion rubles planned in 1957 to 21.8 billion rubles planned in 1959. These reserve funds are not earmarked for any specific purpose but are set aside to meet emergencies or unforeseen demands; in recent years they have been used almost exclusively in the category Financing the National Economy and usually in the part of this category concerned with investment in industry.

Outlays from enterprise own funds for investment in industry will equal 46.3 billion rubles, of which 18.3 billion rubles are made up of profits and 22.3 billion rubles of amortization allowances. Profits in industry (as in the national economy as a whole) continue to grow rapidly. Moreover, actual profits in industry in 1958, according to Finance Minister Zverev, amounted to 117.3 billion rubles, compared with 111.6 billion rubles planned. Overfulfillment of the profits plan apparently reflects the over-all overfulfillment of industrial production (10 percent claimed actual compared with 7.6 percent planned) and general fulfillment of cost reduction plans (in contrast to 1957, when costs in some key industries were not reduced as much as anticipated). Planned profits in industry will increase to 132.5 billion rubles in 1959, of which about 15 percent will be retained by enterprises for their own investment within the centralized investment plan.

C. Agriculture

The decline in the budget allocation to investment in state agriculture -- from 25.9 billion rubles planned in 1958 to 15.2 billion rubles planned in 1959 -- as well as the over-all decline in

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the budget allocation to state agriculture -- from 53.4 billion rubles planned in 1958 to 30.3 billion rubles planned in 1959 (see Table 5) -- can be explained by organizational changes in agriculture during the course of 1958 which affected the relationship between the budget and the agricultural sector of the economy.

Table 5

Planned Allocations to State Agriculture in the USSR a/
1958 and 1959

	Billion Current Rubles	
	1958	1959
Total centralized investment	29.7	19.1
Budget funds	25.9	15.2
Enterprise own funds	3.8	3.9
State farm investment	6.5	8.0
Machine tractor station investment	12.8	11.1
Other b/	10.4	
Total financing	65.2	45.0
Budget funds	53.4	30.3
State farms	11.9	14.0
Machine tractor stations and repair technical stations	29.6	3.7
Other b/	11.9	12.6
Enterprise own funds	11.8	14.7

a.

b. including general agricultural programs such as irrigation, afforestation, and experimental stations.

The abolition of the MTS's and the subsequent purchase of agricultural machinery by collective farms freed the central budget from the need to provide funds for the purchase and maintenance of MTS machinery. Net outlays from the budget to the MTS's were planned at 18 billion rubles last year (gross outlay of 29.6 billion rubles less MTS revenue to the budget of 11.9 billion rubles). Outlays from

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the budget for the newly formed repair technical stations (RTS's) are much less (3.7 billion rubles planned in 1959) -- first, because the RTS's operate on a much smaller scale and, second, because they are khozaschet -- that is, they are expected to cover costs by revenue.

The decline in the budget allocation to agriculture, as a result of the abolition of the MTS's, is offset by increased budgetary grants to agricultural procurement organizations, who must now pay higher prices to collective farms for the purchase of agricultural produce. These higher prices in turn enable the collective farms to purchase and maintain their own machinery (see II, B, above). In 1958 the increases in outlays for agricultural produce were made possible by the use of funds originally allocated to the MTS's but no longer needed for that purpose.

The 1958 organizational changes in agriculture have tended in the direction of minimizing the differences between the state farm and the collective farm systems. State and collective farms pay the same price for the machinery they purchase and operate, and they receive the same price for the produce they sell to the state. The collective farms, however, still sell produce on the collective farm market, where prices are higher. State farms, as state enterprises, receive grants from the budget to cover the major share of the capital investment outlays; on the other hand they must transfer to the state budget a portion of their profits (which are quite modest). Collective farms, on the other hand, must rely on their own funds, or bank loans, for their investment outlays. Collective farm investment plays an important role in over-all agricultural investment. According to the 1965 plan goals, of the total 500 billion rubles to be invested in agriculture by that year, 350 billion rubles are to be invested by collective farms.

Collective farms do not pay profits taxes; they do, however, pay an income tax. Collective farm income tax is planned to increase from 9.6 billion rubles in 1958 to 13.3 billion rubles in 1959, in spite of the fact that tax rates were reduced from 14 to 12.5 percent of taxable income at the December Supreme Soviet session. Increased tax payments reflect the growing money income of collective farms which is the result of the new higher procurement prices.

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IV. The Military Establishment

A. Defense Expenditures

The explicit defense allocation, announced at 96.1 billion rubles for 1959, continues on essentially the same level as that which has prevailed since 1956 (see Appendix A, Table 9*).

Although the explicit military allocation would appear to indicate no fundamental change in Soviet policy in regard to the military establishment, it must be remembered that considerable funds, particularly for the new and expanding areas of military development, are available from other sources. The general overall increase in budget expenditures planned for 1959 (see I, above) is sufficiently large to permit the growth of those military programs financed under other budget categories (such as Financing the National Economy and Social-Cultural Measures). For example, the large increase in allocations for operational expenditures in industry already noted (see II, C, above) may very well reflect additional outlays for development of new weapons.

According to a recent official Soviet statement, the armed forces of the USSR had been cut by 300,000 men by 1 January 1959, in accordance with a decision made early in 1958. This reduction is over and above the reduction of 1.8 million men claimed for 1955 and 1956. It appears from the budgetary allocation to defense, however, that any saving resulting from the manpower releases has been offset by the increased costs of equipping and maintaining military personnel with new complex supplies.

B. Scientific Research and Development

Expenditures on scientific research, from budget and enterprise own funds, continue to increase rapidly. The 1959 plan allocation of 27.3 billion rubles shows an impressive 14-percent increase above the "comparable" figure for 1958 of 23.9 billion rubles. Although this allocation covers a wide range of scientific activity, the increase since 1954 seems unusually high unless substantial sums are included to finance military-oriented research, particularly that connected with the rocket and earth satellite programs (see Table 6**). This allocation is part of the budget category Social-Cultural Measures and appears under the subcategory Education.

* P. 31, below.

** Table 6 follows on p. 22.

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Table 6

Financing of Scientific Research Institutes in the USSR a/
1954-59

Billion Current Rubles			
<u>Year</u>	<u>Budget</u>	<u>Enterprise Own Funds</u>	<u>Total</u>
1954 (actual)	6.8	2.7 <u>b/</u>	9.5 <u>b/</u>
1955 (actual)	8.2	3.4	11.6
1956 (plan)	N.A.	N.A.	13.6
1957 (actual)	11.7 <u>b/</u>	4.7	16.4
1958 (plan)	15.0	3.2	18.2
1958 (actual) <u>c/</u>	N.A.	N.A.	23.9
1959 (plan) <u>c/</u>	23.1	4.2	27.3

a.

b. Actual assumed equal to plan.

c. Not comparable to figures for earlier years.

The 1958 actual and the 1959 plan allocations to science are stated explicitly by Finance Minister Zverev to be based upon "comparable data"; it is unlikely, however, that they are comparable to the series announced in earlier years. It will be observed in Table 6 that the figure recently announced by Zverev for the actual 1958 achievement is 5.7 billion rubles, or 31 percent above the plan announced a year ago. Apparently in response to the request for increased funds by Academy of Sciences President Nesmeyanov at the Supreme Soviet session a year ago, funds were made available in the course of the year over and above the originally planned amount. On the other hand, there have been a series of organizational shifts during 1958 which may have resulted in some redefinition of budget categories. For example, in mid-1958 a new statute was promulgated for the Academy of Sciences on which there is virtually no information. Moreover, the reorganization of industry resulted in a shift of numerous research institutes from the ministries to Gosplan and the sovnarkhozes; these shifts may have resulted in a transfer of part of the outlays for scientific research from the category Financing the National Economy to the category Social-Cultural Measures. In some cases at least, outlays for scientific research, formerly charged to the cost of production of enterprises, are now paid for out of budget social-cultural funds. Both these practices would tend to inflate the 1958 actual and 1959 plan allocations in Table 6. None of these considerations alters the fact that outlays for science have been increasing rapidly; they do make it impossible, however, to measure exactly the size of the increase.

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The series of expenditures presented here does not represent the total scientific effort in the USSR. Considerable activity, particularly in the field of applied research and product development, either is financed from other budget categories, such as Financing the National Economy, or is charged to production costs of enterprises and organizations. Moreover, a small amount of scientific activity carried out in educational institutes and universities is financed from funds to "finance higher educational establishments."

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V. The Consumer

The 1959 Soviet plan budget does not promise any significant new benefits to the population; it does, however, provide for the maintenance of the rather impressive benefits granted in 1957 and 1958, such as new higher pensions, decreased liability for the income tax, and abolition of compulsory state loans.

Budget outlays for social-cultural measures (see Table 7) will increase slightly in 1959 above 1958. The outlays for education are planned to increase by 10.2 billion rubles; the bulk of this increase can be explained, however, by the 8.1-billion-ruble increase in the allocation to scientific research institutes (see discussion in III, above). Expenditures for general education, planned

Table 7

Financing Social-Cultural Measures in the USSR
1956-57 Actual and 1958-59 Plan

	Billion Current Rubles			
	1956 a/ <u>Actual</u>	1957 b/ <u>Actual</u>	1958 c/ <u>Plan</u>	1959 d/ <u>Plan</u>
Education	73.6	80.7	84.2	94.4
of which science	N.A.	11.7	15.0	23.1
Health	35.7	38.3	40.4	44.1
Social welfare	55.1	81.5	88.2	93.7
Total	<u>164.4</u>	<u>200.5</u>	<u>212.8</u>	<u>232.2</u>

a.

b.

c.

d.

at 50.5 billion rubles in 1959, will show a 5.6-percent increase above 1958, necessitated, according to the Finance Minister, by the increasing number of students, particularly in the boarding schools. It appears that the new system of general education, also discussed at the Supreme Soviet meeting in December, is not expected to require increased sums from the budget, at least in 1959. Outlays from the budget for health will increase moderately, as will social

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welfare payments. The increase in the latter in 1959 is accounted for by the increased number of pensioners, resulting from the aging of the labor force. Earlier increases in this category (1957 and 1958) were a result of the new pension law of 1956.

Turnover tax receipts continue to provide the largest share of budget revenue (45.9 percent planned for 1959). The 10-percent revenue increase in this tax contemplated for 1959, coupled with an 8.6-percent planned increase in retail trade turnover, suggests that no significant retail price reductions are planned at present for 1959. The transfer to the decentralized collection of the turnover tax scheduled to go into effect in 1958 has been indefinitely postponed. According to the proposed new system, turnover taxes would in all cases be paid directly by the producing enterprises (at present, roughly 60 percent is paid by the enterprise and 40 percent by the wholesale trade organizations). The details are still being worked out by the Ministry of Finance and the Council of Ministers.

Income to the budget directly from the population continued to account for a small share of budget revenue. Income taxes, which account for 7.7 percent of budget revenue, are planned at 56.0 billion rubles in 1959 compared with 49.8 billion rubles in 1958. This increase is a result of higher wages and increases in the labor force. The past 2 years have witnessed a series of reforms in the tax structure, such as decreased liability to the bachelor tax and increased income tax exemptions to lower paid workers. Although no specific tax reforms were promised to the population in the budget message this year, the speech of Nikita Khrushchev at the Twenty-First Party Congress in January indicated that direct taxes on the population will be reduced or even abolished during the Seven Year Plan period.

Soviet budget practice includes both the sale of state bonds and increases in savings deposits as budget revenue. Both appear under the budget category State Loans. Since the abolition of compulsory state loans from the population in 1956, however, loan revenue has become a negligible source of income. The initial effect of the state loan abolition in 1957 was to increase savings deposits (by 16 billion rubles in that year). In spite of rising incomes, however, savings deposits increased in 1958 by about 7 billion rubles compared with the planned 13 billion rubles. The 1959 plan is correspondingly lower (7 billion rubles). Evidently the Soviet population is not inclined to put money in savings banks if increased goods and services are available (in this case, probably increased private housing).

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VI. Budgets of the Union Republics

The trend toward increasing the share of budget funds channeled through republic and local budgets which has been in effect since 1956 will come to a halt in 1959, as the share of these budgets in the total USSR will decline slightly. Expenditures of republic budgets, which accounted for more than half of the 1958 total budget, will increase in 1959 by 23.4 billion rubles compared with the increase of 79.5 billion rubles in the total budget. It is notable that, in the category Financing the National Economy, republic budget outlays will fall to 60 percent of the total, compared with 67.9 percent planned last year.

The distribution of republic budget funds among the various republics will not change in 1959. The RSFSR will continue to account for just under 60 percent of total republic budget funds and the Ukraine for over 18 percent. For the second consecutive year, the Kazakh budget, which is the third largest of the republics but consists of only 6 percent of the total, will show a deficit next year of 2.6 billion rubles. This will occur in spite of the fact that Kazakh is the only republic allowed to keep all of the turnover tax collected by it. The deficit will be made up by the transfer of the necessary funds from the All-Union budget, because the development of heavy industry in the Kazakh SSR is deemed to be of general, All-Union significance. Normally republic budgets are exactly balanced, and the budget surplus occurs in the central All-Union budget.

Although the allocation to administration is planned to decline slightly in 1959 (11.5 billion rubles planned compared with 11.9 billion rubles planned in 1958), the budget discussion indicated that economies in this field have not been as great as hoped. It appears that some remnants of the old ministerial structure still remain in some areas of industry and construction which parallel the work of newly formed organs. Moreover, some parts of the Councils of the National Economy appear to have excessive personnel. It was pointed out that in the Ministry of Finance the number of workers increased in 1958 although it was scheduled to decline.

Criticism continues to be levied at the planning-prospecting organizations, which spend more than 5 billion rubles annually. It appears likely that they will be reorganized in the near future and possibly put on a khozraschet basis.

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APPENDIX A

STATISTICAL TABLES

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Table 8

Soviet Budget Revenues
1955-59

Category	1955			1956			1957			1958			1959		
	Plan a/	Actual b/	Plan c/	Actual d/	Plan e/	Actual f/	Plan g/	Actual h/	Plan i/	Actual j/	Plan k/	Actual l/	Plan m/	Actual n/	Plan o/
Turnover Tax	233.8	242.4	271.2	258.6	277.3	275.6	301.5	N.A.	333.0	275.6	301.5	N.A.	333.0	275.6	301.5
Profits Deductions j/	117.6	102.8	107.3	102.9	116.0	118.4	130.3	N.A.	154.9	118.4	130.3	N.A.	154.9	118.4	130.3
Taxes on the Population	48.4	48.3	50.3	50.5	51.5	52.0	49.8	N.A.	56.0	52.0	49.8	N.A.	56.0	52.0	49.8
Social Insurance Receipts	26.5	26.5	(28.0)	28.3	31.0	33.3	33.5	N.A.	N.A.	33.3	33.5	N.A.	N.A.	33.3	33.5
State Loans k/	41.8	36.8	(40.3)	44.3	39.2	35.2	17.6	N.A.	N.A.	35.2	17.6	N.A.	N.A.	35.2	17.6
Machine Tractor Station Revenues	6.6	6.2	N.A.	10.6	13.9	11.3	11.9	N.A.	1.5	11.3	11.9	N.A.	1.5	11.3	11.9
Income Taxes on Enterprises and Organizations	11.6	12.4	N.A.	14.1	15.5	14.1	15.6	N.A.	19.6	14.1	15.6	N.A.	19.6	14.1	15.6
Other revenues	81.4	(72.9)	N.A.	76.6	72.8	87.0	82.7	N.A.	N.A.	87.0	82.7	N.A.	N.A.	87.0	82.7
Total real revenues	567.7	548.3	592.7	585.9	617.2	626.9	642.9	661.2	723.3	626.9	642.9	661.2	723.3	626.9	642.9
Fictitious revenues	22.5	(16.0)	0	0	0	0	0	0	0	0	0	0	0	0	0
Total stated revenues	590.2	564.3	592.7	585.9	617.2	626.9	642.9	661.2	723.3	626.9	642.9	661.2	723.3	626.9	642.9
Budget surplus	26.7	24.8	23.1	22.4	12.6	19.6	15.2	22.7	15.7	19.6	15.2	22.7	15.7	19.6	15.2

a.
b.
c.
d.
e.
f.
g.
h.
i.

j. Including return of surplus working capital.
k. Including (1) compulsory bond purchases by the population (before 1957), (2) voluntary bond purchases by the population, (3) bond purchases by savings banks investing net increases in savings deposits, and (4) bond purchases by the state commercial insurance organization investing part of its reserves.

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APPENDIX A

STATISTICAL TABLES

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Table 9

Soviet Budget Expenditures
1955-59

Category	1955		1956		1957		1958		1959	
	Plan a/	Actual b/	Plan c/	Actual d/	Plan e/	Actual f/	Plan g/	Actual h/	Plan i/	Actual j/
Financing the National Economy	222.3	233.1	237.3	245.2	244.7	267.0	257.2	N.A.	308.9	
Industry	111.8	110.2	110.0	128.2	118.4	130.8	129.0		145.3	
Heavy	101.2	96.6	100.9	112.0	103.5	N.A.	N.A.	N.A.	N.A.	
Light	10.6	13.6	9.1	16.2	14.9	N.A.	N.A.	N.A.	N.A.	
Agriculture	55.1	50.9	48.6	49.1	52.9	51.8	53.4		30.3	
Transport and Communications	23.0	19.4	21.8	21.5	18.0	N.A.	14.4		25.0	
Other	32.4	52.6	56.9	46.4	55.4	N.A.	60.4		108.3	
Social-Cultural Measures	147.0	147.2	161.5	164.4	188.4	200.5	212.8	N.A.	232.2	
Education	68.5	68.9	72.8	73.6	78.9	80.7	84.2		94.4	
Health	30.5	31.2	35.1	35.7	37.9	38.3	40.4		44.1	
Social Welfare	48.0	47.1	53.6	55.1	71.6	81.5	88.2		93.7	
Administration	12.6	12.5	12.5	12.1	11.9	11.9	11.9	N.A.	11.5	
Defense	112.1	107.4	102.5	97.3	96.7	N.A.	96.3	N.A.	96.1	
Reserve Funds, Councils of Ministers	(11.2)	0	13.0	0	14.0	0	16.7	N.A.	21.8	
Loan Service	14.3	14.3	(16.3)	16.3	18.0	N.A.	Negligible	N.A.	Negligible	
Other expenditures	(21.5)	25.0	(26.5)	28.2	30.9	N.A.	(32.8)	N.A.	37.1	
Total real expenditures	541.0	539.5	569.6	563.5	604.6	607.3	627.7	638.5	707.6	
Fictitious expenditures	22.5	0	0	0	0	0	0	0	0	
Total stated expenditures	563.5	539.5								

a.

b.

c.

d.

e.

f.

g.

h.

i.

j.

Excluding enterprises of republic jurisdiction.

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APPENDIX B

SOURCE REFERENCES

Evaluations, following the classification entry and designated "Eval.," have the following significance:

<u>Source of Information</u>	<u>Information</u>
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Doc. - Documentary	1 - Confirmed by other sources
A - Completely reliable	2 - Probably true
B - Usually reliable	3 - Possibly true
C - Fairly reliable	4 - Doubtful
D - Not usually reliable	5 - Probably false
E - Not reliable	6 - Cannot be judged
F - Cannot be judged	

Evaluations not otherwise designated are those appearing on the cited document; those designated "RR" are by the author of this memorandum. No "RR" evaluation is given when the author agrees with the evaluation on the cited document.

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