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INTELLIGENCE MEMORANDUM

THE SOVIET BUDGET FOR 1953

CIA/RR IM-377

, 12 August 1953

WARNING

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CENTRAL INTELLIGENCE AGENCY

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THE SOVIET STATE BUDGET FOR 1953

1. Introduction.

The 1953 Soviet budget, submitted to the Fifth Session of the Supreme Soviet on 5 August, and Premier Georgi M. Malenkov's speech accompanying the budget presentation indicate a significant change in Soviet economic policy. An analysis of the budget and accompanying announcements reveals that whereas the USSR contemplates no slackening of investment or industrial development, consumption is scheduled to grow more rapidly than in the past. Explicit "defense" expenditures are reduced slightly from the 1952 Plan although they are increased slightly from actual expenditures in 1952, and total military outlays including undisclosed categories may have risen even more. Premier Malenkov's speech included a specific promise of a drastic shift in economic policy in favor of the Soviet consumer, a shift that would reverse a 25-year policy of emphasizing heavy industry. Analysis of the budget suggests that plans for implementing this new policy in 1953 are overoptimistic and will not be fulfilled.

The draft budget, as well as selected budgetary results for 1952 and small revisions in the totals for 1951 revenues and expenditures, was presented 5 months later than usual by the Soviet Minister of Finance, A. Zverev. In past years it has usually been presented in March. After 3 days of debate the draft budget, with a minor increase in revenues, was ratified by the Supreme Soviet. Table 1\* and Figures 1 and 2\*\* present summary data available from the Finance Minister's speech, ensuing announcements, and the closing speech of Premier Georgi M. Malenkov, together with budget information from previous years. Table 2\*\*\* presents more detailed data for 1952 and 1953.

2. Trends in Budget Components.

Total expenditures and revenues are both scheduled to increase substantially in 1953. The planned expenditures of 530.5 billion

\* Table 1 follows on p. 2.

\*\* Figures 1 and 2 follow p. 2.

\*\*\* Table 2 follows on p. 3.

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Table 1  
Soviet Budgets  
1949-53

	1949		1950		1951		1952		1953	
	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual
<b>Expenditures</b>	(Billion Rubles)	(Billion Rubles)	(Billion Rubles)	(Billion Rubles)	(Billion Rubles)	(Billion Rubles)	(Billion Rubles)	(Billion Rubles)	(Billion Rubles)	(Billion Rubles)
National Economy	152.5	161.9	164.4	157.3	178.5	179.4	180.4	178.8	192.5	192.5
Social and Cultural	119.2	116.0	120.7	116.8	120.8	118.9	124.8	122.8	129.8	129.8
Defense	79.1	79.2	79.4	82.9	96.4	93.9	113.8	108.6	110.2	110.2
State Administration and Loan Service	18.2	17.2 a/	19.4	18.5 a/	21.3	20.0 a/	23.3	21.0 b/	24.1	24.1
Other	46.4	38.0	44.0	37.2	34.5	29.1	34.6	29.0	73.9	73.9
<b>Total</b>	<u>415.4</u>	<u>412.3</u>	<u>427.9</u>	<u>412.7</u>	<u>451.5</u>	<u>441.3</u>	<u>476.9</u>	<u>460.2</u>	<u>530.5</u>	<u>530.5</u>
		(Percent of Total)		(Percent of Total)		(Percent of Total)		(Percent of Total)		(Percent of Total)
National Economy		39.3		38.1		40.7		38.9		36.3
Social and Cultural		28.1		28.3		26.9		26.7		24.5
Defense		19.2		20.1		21.3		23.6		20.8
State Administration and Loan Service		4.2		4.5		4.5		4.6		4.5
Other		9.2		9.0		6.6		6.3		13.9
<b>Total</b>		<u>100.0</u>		<u>100.0</u>		<u>100.0</u>		<u>100.0</u>		<u>100.0</u>
<b>Revenues</b>										
Turnover Tax	262.1	245.5	239.1	236.1	244.9	247.8	260.0	N.A.	241.0	241.0
Deductions from Profits	29.5	42.2	40.0	40.4	47.1	47.8	62.0	58.4	80.6	80.6
Direct Tax on Population	36.6	33.7	36.4	35.8	43.4	44.3	47.4	N.A.	46.1	46.1
Loans	23.1	27.6	31.8	31.0	33.4	37.0	42.5	40.8	26.7 d/	26.7 d/
Other	94.7	88.0	85.8	78.8	89.9	91.1	98.0	N.A.	149.9	149.9
<b>Total</b>	<u>446.0</u>	<u>437.0</u>	<u>433.1</u>	<u>422.1</u>	<u>458.7</u>	<u>468.0</u>	<u>509.9</u>	<u>497.7</u>	<u>544.3</u>	<u>544.3</u>
Surplus	30.6	24.7	5.2	9.4	7.2	26.7	33.0	37.5	13.8	13.8

a. Actual loan figures are estimated, since these have not been announced.

b. State administration estimated at 14.2 billion current rubles.

c. Planned item as a percent of planned total.

d. Includes 9 to 10 current billion ruble increase in savings deposits, so that this category will be comparable to earlier years.

Table 2  
Soviet Budgets a/  
1952-53

Expenditures	1952		1953		
	Plan	Actual	Plan		
	(Billion Current Rubles)	(Percent of Total)	(Billion Current Rubles)	(Billion Current Rubles)	(Percent of Total)
National Economy	180.4	37.8	178.8	192.5	36.3
Industry	80.6	16.9	N.A.	82.6	15.6
Agriculture	34.7	7.3	N.A.	39.9	7.5
Transportation	14.3	3.0	N.A.	14.6 b/	2.8
Trade and Procurement	13.3	2.8	N.A.	13.7 b/	2.6
Communal Economy	5.0 b/	1.0	N.A.	5.5 b/	1.0
Undisclosed National Economy	32.5	6.8	N.A.	36.2	6.8
Social-Cultural	124.8	26.2	122.8	129.8	24.5
Education	60.0	12.6	N.A.	62.1	11.7
Social Assistance and Social Insurance	37.5	7.9	N.A.	42.9	8.1
Health and Physical Education	22.8	4.9	N.A.	24.8	4.7
Defense	113.8	23.6	108.6	110.2	20.8
State Administration	14.4	3.0	N.A.	14.3	2.7
Loan Service	8.9	1.9	6.8	9.8	1.8
Ministries of Internal Affairs and State Security	17.0				
Reserve Fund of the Council of Ministers	6.1	7.3	N.A.	73.9	13.9
Unexplained Residual	11.5				
<b>Total</b>	<b>476.9</b>	<b>100.0</b>	<b>460.2</b>	<b>530.5</b>	<b>100.0</b>
<b>Revenues</b>					
Turnover Tax	260.7	51.1	N.A.	241.0	44.3
Deductions from Profits	62.0	12.2	58.4	80.6	14.8
Direct Taxes	47.4	9.3	N.A.	46.1	8.5
State Loans	42.5	8.3	40.8	26.7 c/	4.9
Other Receipts (Residual)	97.3	19.1	N.A.	149.9	27.5
Income of MTS	5.9	1.2	N.A.		
State Social Insurance	21.4	4.2	N.A.		
Customs-Reparations	26.2	5.1	N.A.		
Revenues not Classed as Taxes	14.0	2.7	N.A.		
Income Tax on Non-State Enterprises	10.2	2.0	N.A.		
<b>Total</b>	<b>509.9</b>	<b>100.0</b>	<b>497.7</b>	<b>544.3</b>	<b>100.0</b>
Surplus	33.0		37.5	13.8	

a. As ratified by the Supreme Soviet, 8 August 1953.

b. Estimate based on earlier years.

c. State loan from population and increase in savings deposits.

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rubles are 15 percent greater than actual expenditures in 1952 and 11 percent greater than planned 1952 expenditures, which were under-fulfilled. Scheduled "defense" expenditures are 3.6 billion rubles below the 1952 planned level, but 1.6 billion, or 1.4 percent, above 1952 actual expenditures. The scheduled decline in percentage of total budget allotted to "defense" will be the first since 1946.

The increase in budgeted expenditures is primarily accounted for by an increase in the undefined residual of budgetary expenditures. The residual rises from 29.0 billion rubles (approximately) for 1952 to 73.9 billion rubles for 1953, rising from 6 percent to 14 percent of total expenditures. Although the specific nature of expenditures included in this residual cannot be identified, there is substantial agreement that a significant portion of these outlays has been more or less directly in support of the Soviet military effort. Appropriations for "national economy" (government-financed investment in industry, agriculture, transportation, trade, and procurement) are to increase by 7.5 percent in 1953, as contrasted with a small decline in 1952. "Social and cultural" expenditures are to rise by 5.5 percent. The percentage increases in these two items are considerably less than the increase in total expenditures.

The revenue side of the 1953 budget shows a decline of about 40 billion from the 1952 budget (planned) in revenues to be collected directly from the population through turnover taxes, direct taxes on the population, and loans. On the other hand, revenues from profits or enterprises are to rise by 18.6 billion. A large increase in the "other" revenue category is surprising and unexplained.

The 1953 budgeted surplus of 13.8 billion rubles is to be about a third of the 1952 actual surplus. The function of budget surplus was explained by Zverev in the following words:

"Such a surplus has insured a considerable expansion of credit investments in our national economy and has facilitated a further strengthening of the monetary circulation of the country."

Since the surplus has the effect of a reducing purchasing power in the hands of individuals and enterprises, the decline of the surplus for 1953 together with the large increase in total budget expenditures and enterprise investment gives the budget something of an inflationary cast.

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3. Defense.

In his presentation of the draft budget Zverev did not reveal the actual 1952 "defense" expenditures. The appearance of a decline in this category was created by comparison with the 1952 Plan figure of 113.8 billion rubles. Malenkov, however, later gave the "defense" percentage of actual total for 1952, which indicated an actual defense expenditure of 108.6 billion. There is reason to believe that the modest rise to 110.2 billion scheduled for 1953 may still understate the trend of defense expenditures.

It is a fairly safe assumption that the budget drafters were counting on an early end to Korean hostilities. The savings from this source, amounting to a few billion rubles for the second half of the year, will be released for a more rapid build-up and improvement of the armed forces than is implied by the increase in "defense."

A considerable part of the Soviet defense expenditures is not disclosed in the budget but is buried in other categories, such as education and scientific research, internal security (MVD), and the like. These undisclosed military expenditures are probably 14 to 17 billion rubles. In addition, it has long been suspected that the undisclosed residual item under "national economy," which for 1953 is estimated at 36.2 billion rubles, and the unexplained residual in the budget totaling 73.9 billion rubles may also include considerable amounts earmarked for the support of Soviet armed forces. The sharp rise in the unexplained residual item in the 1953 budget is a warning against accepting the small rise in budgeted "defense" at its face value.

If this probable misrepresentation in the budget is taken into account, it seems likely that military expenditures will continue to be in the neighborhood of one-sixth of the Soviet gross national product.

4. Investment and Consumption.

The budget speeches hold out promises for improvements in the standard of living. For example, Zverev announces a reduction in direct taxes on the agricultural population with the avowed intention of encouraging private ownership of livestock. An increase in communal housing expenditures of 25 percent is also scheduled. These are small items in the budget, but they are consistent with

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the policy of increased consumption which has been implemented by the reductions in prices of consumers goods announced in April, the reduction in the compulsory state loan collection announced in June, and the 15-percent increase in retail turnover announced for the first half of 1953. The most heartening news for consumers was contained in Malenkov's announcement that retail turnover of consumers goods will be increased by 32 billion rubles, or about 7 percent, above Plan. Since the Plan called for a 9- or 10-percent increase over 1952, the new Plan calls for a 16-percent increase over 1952. The additional goods, according to Malenkov, are to come from increased production and reallocations of goods from non-market consumers (military and industry). These points combined with the relatively modest increase of "national economy" and "defense" of 15.3 billions, or 5.3 percent, gives the appearance of a drastic shift in favor of the Soviet consumer.

The growth of investment, however, is not really scheduled to slow down. Malenkov's speech gives the total investment in 1953 as more than 290 billion rubles -- 192.5 billion rubles from the budget and 98 billion rubles from funds of enterprises and agriculture -- as compared to total investment in 1952 of 265 billion rubles -- 178.8 billion rubles from the budget and 86.2 billion rubles from funds of enterprises and agriculture. The increase of investment over 1952 is nearly 10 percent, which is not a reduction from the rate necessary to implement the current Five Year Plan (1951-55).

The growth in total investment, defense, and government, as shown in Table 3,\* is even more striking. The increase from the 1952 actual budget is 17.6 percent. In order for total consumption, as distinct from retail turnover in state stores and cooperatives, to rise by 16 percent at the same time that other expenditures rise by 17.6 percent, either gross national product must rise by a comparable percentage or large quantities of goods must be withdrawn from stock-piles.\*\*

The Soviet government has something to gain from increasing supply of consumers goods besides the good will of the people. The chronic shortage of goods in quantity, quality, and diversity in relation to consumer purchasing power has probably dampened incentives to earn

\* Table 3 follows on p. 7.

\*\* A provocative speculation is that sales of state reserves to the government might explain the large undisclosed budget expenditures and resale to retail stores explain the large other revenues.

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Table 3

Non-Consumption Expenditures

	Billion Rubles	
	1952 (Actual)	1953 (Planned)
National Economy (Budget and Non-Budget)	265.0	290.0
Defense	108.6	110.2
State Administration and Loan Service	21.0	24.1
Other Budget (Not including Social and Cultural)	29.0	73.9
Total	<u>423.6</u>	<u>498.2</u>

additional income. Productivity would probably increase significantly if supplies of consumer goods were increased to the extent that at given prices the supplies of goods would be more nearly equivalent to demand (purchasing power). However, if purchasing power is expanded at the same rate as the physical supply of goods, which would result in a continuation of the existing repressed inflation, the marginal increment of consumer income would not purchase more goods, and there would be no incentive to produce more.\* The current budget and Plans do not appear to promise much improvement in the situation. The increase in funds available for consumers, enterprises, and the government appears to be greater than any possible real growth in gross national product.

On the other hand, Malenkov did specifically announce improved incentives for peasants through revision and reduction of the direct tax on farmers, higher procurement prices, and special incentives for producing livestock and vegetables. The result of this is likely to be increased production and also increased sales to the state at the expense of the kolkhoz market. This will make a modest contribution to the planned increase in retail turnover.

\* Over the longer run it is possible that a higher level of living would be reflected in higher productivity as nutrition and health levels improve. However, it is also possible that a higher level of living would result in a smaller output as leisure is substituted for goods.

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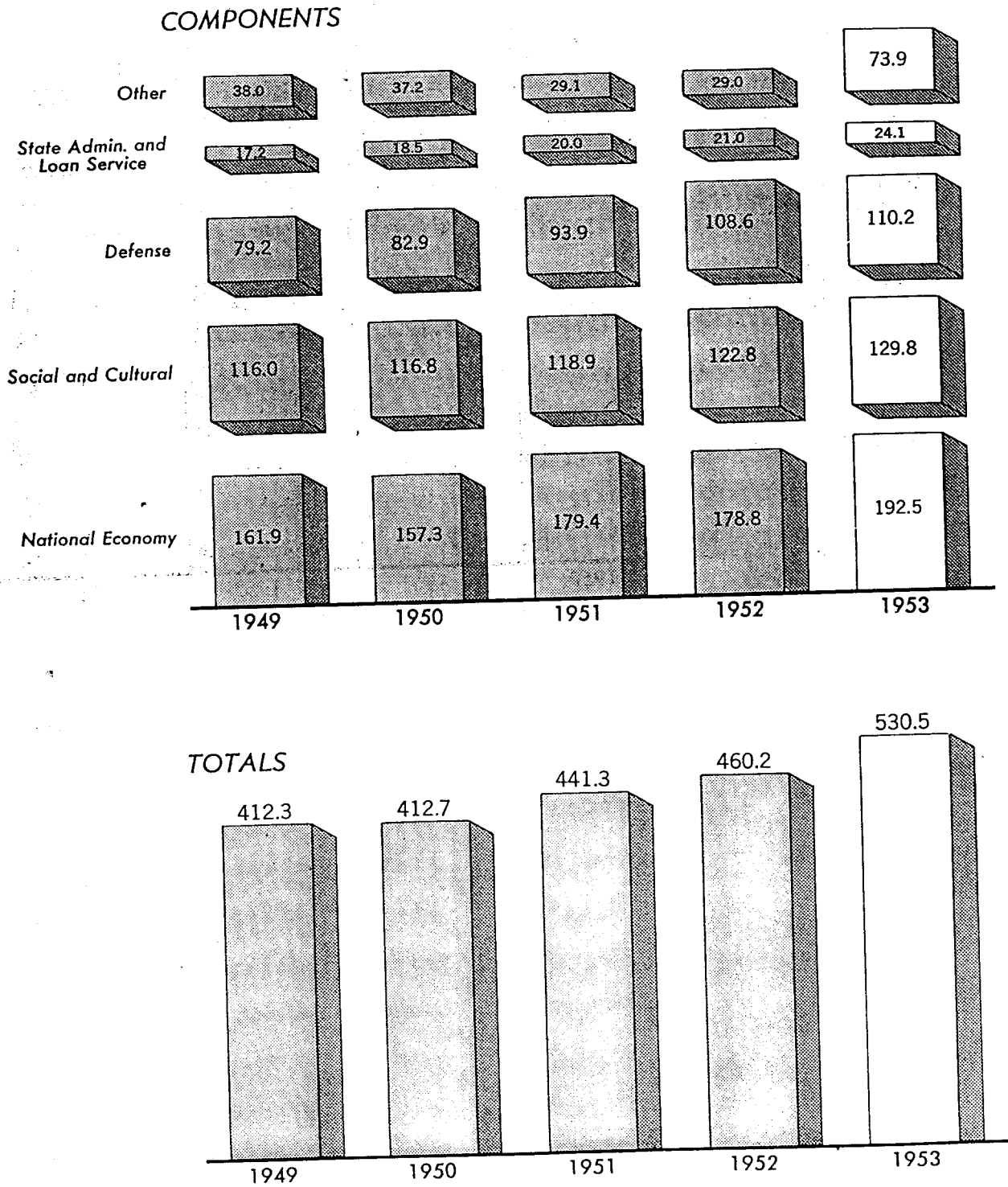
Future prospects of the Soviet consumer will be brighter if Malenkov's announcements are fulfilled. He promises that the Fifth Five Year Plan targets for production of consumers goods will be fulfilled considerably ahead of time. Some machinery industry will shift to production of consumers goods. Agriculture is to be increased substantially. The total investment in agriculture will amount to 55.5 billion rubles. Of this investment, 39.9 billion rubles are allocated out of the national budget, which is a 15-percent increase over the 1952 Plan.

In summary, in 1953 Malenkov appears to propose an ambitious dose of "bootstrap" economics more radical than the early postwar plans of Stalin. Plans for consumer expenditures and the supply of consumers goods have been increased without any reduction in investment or government expenditure plans. The fulfillment of all the plans would require an increase in gross national product of 12 to 15 percent, which compares with the ORR estimate of 6 to 7 percent. Whether the announced Plans for greater consumption in future years will actually be carried out remains to be seen.

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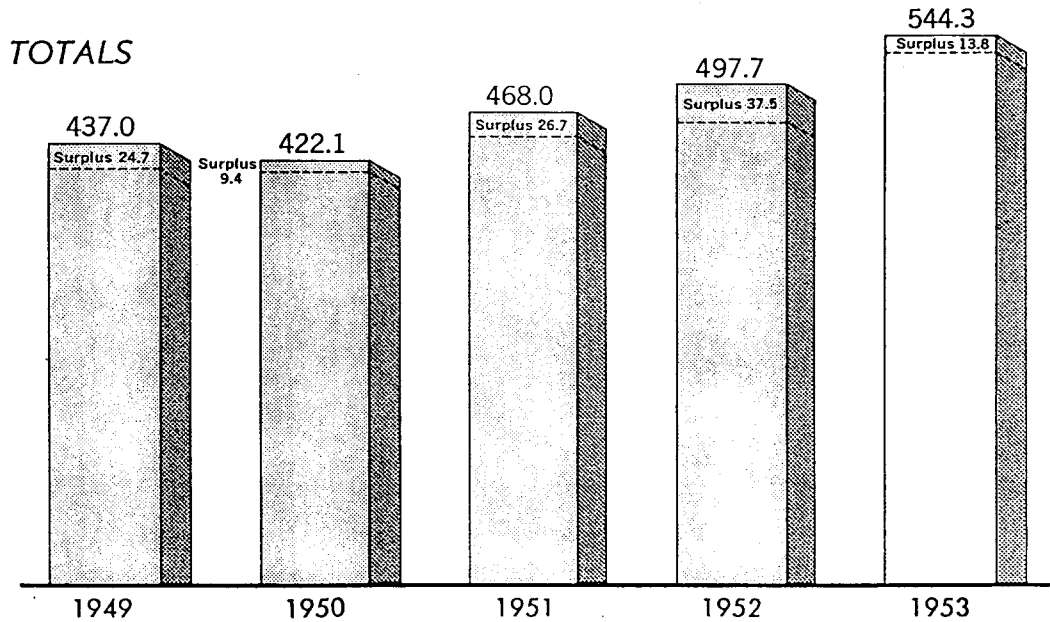
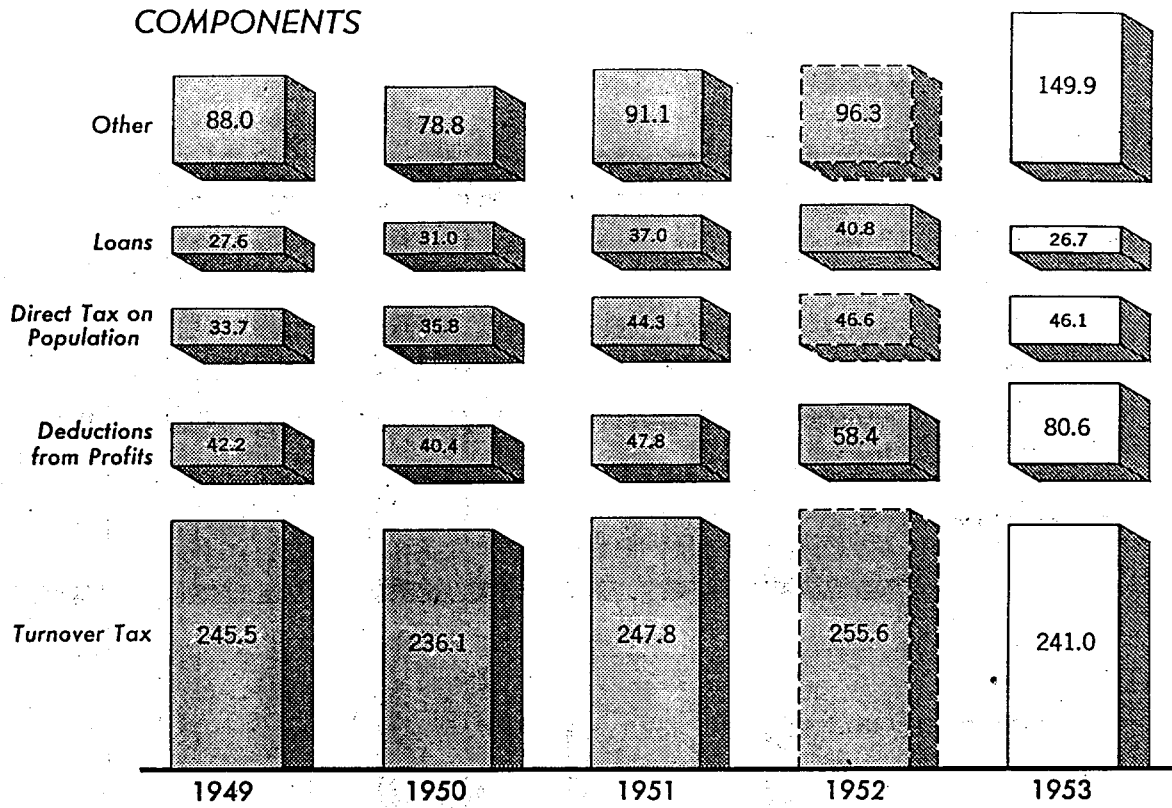
Figure 1  
**SOVIET BUDGET EXPENDITURES, 1949-1953\***  
 (In Billions of Current Rubles)



\* Actual Expenditures in 1949, 1950, 1951, and 1952. Budgeted amounts shown for 1953.

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Figure 2  
SOVIET BUDGET REVENUES, 1949-1953\*  
(In Billions of Current Rubles)



\* Actual Revenues in 1949, 1950, 1951, and 1952.  
Budgeted amounts shown for 1953.  
Some 1952 components are estimated.

Actual      Estimated      Budgeted