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THE
STATE BUDGET
FOR 1970

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The State Budget for 1970

1. The State Budget for 1970 calls for an increase in expenditures of 5.5 percent over the anticipated 1969 results, a rate of increase commensurate with the planned rate of growth of national income and industrial output. The Soviet State Budget constitutes, in size, nearly 50 percent of the gross national product, a proportion approximately 1 1/2 times the share for the combined budgets at the federal, state, and local levels of government in the United States. The larger scope of the Soviet budget is a reflection of the inclusion of funds for financing activities such as investment, higher education, health, recreation, and culture which are normally privately financed in the United States.
2. The budget is the chief vehicle for mobilizing and distributing the financial resources of the economy in support of the economic plan. Once the economic plan is formulated -- mostly in physical terms -- the financial plan (including the budget) reflects in rubles the allocational decisions embodied in the economic plan. After the Soviet plan and budget have been approved, funds are allocated to subordinate agencies and expenditures are monitored by the Ministry of Finance and the state banks. These actions implementing the budget constitute part of the pressure in the system which insures that the economic plan is carried out in accordance with the priorities established by the leadership.
3. The usefulness of announced budget data as indicators of future Soviet economic policies is severely limited. For one thing, the scope of the

Soviet budget is changing as a result of the financing and accounting changes being introduced by the economic reform. Budgetary expenditures are decreasing as a share of total financing of the economy, as capital investment is being financed to a greater extent from higher retained profits of enterprises and from long-term bank credit. Another difficulty in analyzing Soviet budget data is that the published version of the budget is highly aggregated. Large sums are included as unspecified residuals, and the content and coverage of many of the categories are only partly known. For example, Defense is a single number in the Budget with no further breakdown. Moreover, a number of defense and defense-related activities are known to be included under other budget categories.

4. The State Budget of the USSR for 1970 is highlighted by a smaller planned rate of increase of budget expenditures for Defense as compared to rates of growth in earlier years of the post-Khrushchev regime. The appropriation for Defense in 1970 is set at 17.9 billion rubles, an increase of less than one percent over the 1969 figure. This increase is the smallest since 1965, and contrasts to an average annual increase of nearly 10 percent during 1967-69. The Defense share of total planned budget expenditures in 1970 -- 12.3 percent -- is the lowest in many years.

5. Part of the decline in the growth of budget expenditures for Defense in 1970 can probably be attributed to the effect of price revisions. Just as upward price revisions were partly responsible for a large increase in appropriations in 1968, price reductions on individual products in the

electrotechnical, instrument building, machine tool building, radio, and other industries introduced on 1 January 1970 could be expected to affect the prices of some military end items, thus understating the real changes in defense programs.

6. As indicated above, the explicit item for Defense, moreover, does not include all military expenditures. For one, a substantial portion of military-space research probably is carried out under expenditures for science. In addition, some kinds of defense-related items may be regularly located in the expenditure residuals. The consistent equality of planned and actual expenditures for Defense in recent years suggests that any divergences from the planned outlays may also be concealed under the residuals.

7. One particularly large expenditure residual is that part under Financing the National Economy after the subcategories are accounted for. The size of this residual has been difficult to assess in recent years because of a paucity of budget data. Actual expenditures for the subcategories are not available after 1966 and planned expenditure data are incomplete for 1968 and 1970. Nevertheless, it appears that the residual in the planned budgets has increased from approximately 7 billion rubles in 1968 to 12.9 billion rubles in 1969 and to perhaps 15-16 billion rubles in 1970. A large part of the residual in the past could be accounted for by price subsidies for agricultural procurement. This subsidy, identified for the first time in the 1969 Budget Plan, was expected to be 6.5 billion rubles for that year. Some other items which probably have been included in the residual are _____→

funds for purchasing state material reserves (stocks of raw material, fuel, food and equipment to provide a buffer against seasonal interruptions or other contingencies), special accounts for price regulation, allocations for geologic prospecting, and state gold purchases. The lack of information on the components of this residual has led observers to suggest that sizeable military expenditures might ^{also be} involved. For example, additions to state reserves of a military nature may be financed here.

8. Other expenditures of a defense-related nature may be financed under the residual formed after expenditures for the primary budget categories are summed. The allocation for internal security is believed to be included under this budgetary expenditures residual. Other items that are probably financed under this residual include tax refunds to individuals and enterprises, allocations to state banks for expansion of long-term credit, and numerous small miscellaneous expenditures. This residual in 1969 amounted to 5.8 billion rubles, considerably higher than the levels of 2.8 and 3.0 billion rubles in 1967 and 1968. In plan budgets, the residual also includes Reserve Funds of the Council of Ministers. ^{These are contingency funds} to meet unplanned requirements for funds arising in the course of the year. In the actual budget fulfillment, the Reserve Funds are reclassified under the categories for which they were expended.

9. Budget planning appears to have been particularly difficult in recent years. Actual total expenditures are usually slightly higher than plan, but in 1967 and 1968 the excesses over the announced budget plans were about 5 billion rubles and in 1969 more than 3 billion rubles. As above-plan

expenditures were offset by above-plan revenues, the traditional budget surplus was obtained. The Minister of Finance in the annual budget speeches, however, reported budget fulfillment for expenditures of only 0.3 and 1.4 billion rubles over plan in 1967 and 1968 and 0.1 billion rubles under plan in 1969, implying that the budget plans had been revised during the course of the year. How these budget revisions were instituted is not clear. The announced budget is approved, usually in December, by the Supreme Soviet and is published as the Budget Law.

10. It appears that the over-plan expenditures in 1967 and 1968 were, in part, a result of miscalculating the effect of the 1967 revision of industrial wholesale prices. The process of implementing the economic reforms of budget planning. probably contributed to the uncertainty / A principal feature of the reform was the supplanting of budgetary expenditure by self-financing of enterprises and by bank credit. Thus, for Industry and Construction -- the largest subcategory under Financing the National Economy -- budgetary appropriations declined as a share of total planned financing from 52 percent in 1966 to 37 percent in 1969. While the absolute amount of budget outlays were planned to remain fairly constant, financing from other sources -- principally from retained profits and amortization -- were to nearly double over the same period. Actual expenditures / for Industry and Construction in this period are not yet published, but it is likely that sizeable above-plan budget expenditures occurred. By 1969, most of the industrial enterprises had been transferred to the new system and the 1970 Budget Plan calls for the same proportions of budget and non-budget financing as was planned in 1969.

11. The agricultural sector has received only modest ^{increases} in budgetary outlays after a large planned increase in 1968. Budget appropriations for the subcategory, Agriculture and Procurement, were to increase at the nominal rate of 2 to 3 percent in 1969 and 1970 above the plans for the previous years. One official of the Ministry of Finance apologized for the slow-down in the growth of appropriations, citing the "difficult international situation." Budgetary funding of agriculture is much larger than shown under the allocation to Agriculture and Procurement if the price subsidy on state procurement of agricultural products is added. In 1969, for example, the subsidy was to be more than two-thirds as large as the explicit allocation to the subcategory.

12. The budget allocations to Social-Cultural Measures cover a broad group of public services -- social security and welfare measures, education, public health and medical care, mass media communications, recreational and cultural activities -- and financing of "science". These expenditures have comprised about 38 percent of total budget outlays since 1965. Budget expenditures for "science" have grown by almost one-half during 1966-69 compared to about a one-third increase for the sum of the other Social-Cultural Measures.

A large share of these science expenditures may be devoted to military R&D and space activities. In addition to the budget appropriation -- planned at 6.3 billion rubles in 1969 -- enterprises and organizations finance approximately one-third of the total outlays for "science".

13. The state budget is planned so that total revenues will exceed total expenditures. According to published data, there have been no budget deficits since 1943. The budgetary surplus is reportedly used for increasing the credit resources of the State Bank. To the extent that the surplus is not fully loaned out, it serves as a deflationary force, representing a net withdrawal of money from the economy.

14. The Soviet Union relies primarily on indirect taxation for its revenue. The two major sources of revenue -- turnover tax and deductions from profit -- account for about two-thirds of the total budget receipts. Both sources of revenue are obtained by setting prices of goods at levels higher than the costs of production and appropriating some part of the difference. To some extent there is a trade-off between the two taxes. For example, if wholesale prices of consumer goods are raised relative to the retail prices, profits (and profit deductions) are increased at the expense of turnover tax. Until 1969, turnover tax supplied a steadily declining portion of total revenue while profit deductions were growing in importance. From 45 percent of total revenue in 1958, turnover tax revenue dropped to 31 percent in 1968. Over the same period, profit deductions increased from 20 percent to 37 percent. In 1969 and according to the 1970 Plan Budget, however, revenue from turnover tax is to increase more than profit deductions.

15. The method of distributing profits has changed under the economic reform. Previously, planned profit deductions were included in the plan assignments of the enterprise. Under the reform, profit payments are divided into three parts: a capital charge -- currently 6 percent of fixed and working capital for most enterprises; a rent charge -- paid mainly by enterprises in the extractive industries for especially favorable natural, transportation or other conditions; and a "free" profit remainder -- formed after payment of all other obligations, including repayment of loans and stipulated deductions into various enterprise funds. The "free" profit remainder, however, is by far the largest of the payments into the budget, accounting for about one-half of total planned profit deductions in 1970. Profit payments of all types to the budget currently constitute 63 percent of total profits in the economy.

16. Direct taxes on the population account for less than 9 percent of total revenue. The personal income tax -- the most important of the direct taxes -- was supposed to be gradually abolished, but instead, its revenue has grown more rapidly than total revenues. The income tax is paid on a progressive rate schedule, exempting those with incomes of under 60 rubles a month. Other taxes on the population include an agricultural tax levied on incomes from private plots, a tax on privately owned horses, and a bachelor and small family tax levied on single men between 20 and 50 years of age and childless couples.

Table 1

USSR: Expenditures of the State Budget 1/

	Billion current rubles						
	1965	1966	1967	1968	1969		1970
					Plan	Actual	Plan
Financing the National Economy	44.92	45.18	52.8	58.7	58.32	60.4	63.48
Industry and construction	20.99	21.06	2/	2/	22.2	2/	23.9
Agriculture and procurement	6.77	6.30	2/	2/	9.2	2/	9.5
Trade (foreign and domestic)	2.27	2.34	2/	2/	6.5	2/	6.1
Transportation and communications	2.83	2.61	2/	2/	2.6	2/	2.8
Municipal economy and housing	4.23	4.53	2/	2/	4.9	2/	2/
Residual	7.83	7.83	2/	2/	12.9	2/	21.2
Social-Cultural Measures	38.16	40.76	43.48	48.31	51.12	51.3	54.85
Education, science, and culture	17.51	18.73	20.09	21.85	23.2	23.2	24.5
Science 3/	4.26	4.61	5.05	5.52	6.3	2/	2/
Health and physical culture	6.67	7.10	7.45	8.14	8.4	8.5	9.2
Social welfare measures	13.99	14.93	15.94	18.32	19.5	19.6	21.1
Defense 4/	12.78	13.40	14.5	16.7	17.70	17.7	17.85
Administration 5/	1.28	1.41	1.5	1.6	1.6	1.7	1.71
Loan Service 6/	0.1	0.1	0.2	0.2	0.2 7/	0.2 7/	0.2 7/
Budgetary expenditures residual	4.38	4.73	2.76	3.05	4.96 7/8/	5.8 7/	6.56 7/8/
Total Expenditures	101.62	105.58	115.24	128.56	133.90	137.1	144.66

Notes to Table 1

- 1/ Because of rounding, components may not add to the totals shown.
- 2/ Not available.
- 3/ Including expenditures for capital investment.
- 4/ Excluding outlays for most of military R & D and space, internal security forces, and possibly other defense-related items.
- 5/ Including financing for all local and central government agencies such as planning and financial bodies, ministries, government departments, and the courts and judicial organs.
- 6/ Consisting of payments of interest and principal on the public debt.
- 7/ Estimated.
- 8/ The Budget Plan includes Reserve Funds of the Council of Ministers.

Tabl. 2

USSR: Revenues of the State Budget 1/

	Billion current rubles						
	1965	1966	1967	1968	1969		1970
					Plan	Actual	Plan
Social sector	93.89	97.22	107.1	119.4	121.64	126.0	131.34
Turnover tax	38.66	39.31	40.1	40.8	43.0	44.3	46.6
Deductions from profits	30.87	35.67	41.8	48.0	48.0 2/	48.2	50.4 2/
Income tax on organizations 3/	1.55	1.15	1.3	1.1			
Social insurance receipts 4/	5.56	6.00	6.5	7.2	30.6	33.5	34.3
Residual 5/	17.25	14.89	17.4	22.3			
Private sector	8.43	9.27	10.1	11.4	12.5	12.5	13.6
State taxes on the population	7.70	8.44	9.3	10.5	11.5	11.7	12.7
State loans 6/	0.18	0.22	0.1	0.3			
Local taxes and lotteries 7/	0.55	0.61	0.7	0.6	1.0	0.8	0.9
Total Revenues	102.32	106.30	117.16	130.84	134.10	138.5	144.93
Budget Surplus	0.70	0.72	1.92	2.28	0.20	1.4	0.27

Notes to Table 2

- 1/ Because of rounding, components may not add to the totals shown.
- 2/ Including removal of surplus working capital and recalculations of previous year's profits.
- 3/ Including collective farms, consumer and producer cooperatives.
- 4/ The state social insurance budget is a separate budget, but is consolidated with the union budget and the budgets of individual republics to form the overall state budget.
- 5/ Including income from forestry operations, customs duties, repayments on loans made to foreign countries, proceeds from gold sales, income from the sale or rent of state-owned properties, entertainment tax, and various other taxes and fees paid by enterprises and organizations.
- 6/ Consisting mainly of purchases by individuals of a 3 percent domestic lottery.
- 7/ Consisting of republic /^{cash-or-commodity} lotteries and miscellaneous local taxes and fees.

SOURCES:

1965-66: G. P. Kosyachenko, and others, eds, 50 let Sovetskikh finansov, Moscow, 1967, pp. 334 and 337.

1967-68: Tsentral'noye statisticheskoye upravleniye, Narodnoye khozyaystvo v 1968, Moscow, 1969, pp. 774-778.

1969 plan: Finansy SSSR, no. 1, 1969, pp. 3-19; Ekonomicheskaya gazeta, no. 51, 1968, p. 2.

1969 actual and 1970 plan: Pravda, 17 Dec 1969, pp. 4-5; Pravda, 19 Dec 1969, p. 1; Finansy SSSR, no. 1, 1970, pp. 3-16.