

V. LAVROV

**THE SOVIET
BUDGET**

V. LAVROV

THE SOVIET BUDGET



FOREIGN LANGUAGES PUBLISHING HOUSE

Moscow 1959

CONTENTS

	<i>Page</i>
I. BUDGET AND NATIONAL ECONOMY	5
Budget and National Income	8
Budget and Socialist Planning	11
Revenue and Expenditure	12
The Budget System of the U.S.S.R.	16
II. FINANCING THE NATIONAL ECONOMY	19
Relationship between the Budget and the Economy	19
Financing Industry	22
Expenditure on Agriculture	27
Capital Investments	33
Providing Circulating Capital	36
III. RAISING LIVING STANDARDS AND THE ROLE OF THE BUDGET	38
Expenditure on Education	39
Expenditure on Public Health	43
State Social Insurance, Pensions	46
Growth of Real Earnings	48
House Building	51
IV. BUDGET REVENUE	52
Revenue from Socialist Economy	54
Direct Taxes	59
State Loans, Savings Bank Accounts	62
V. THE BUDGETS OF THE UNION REPUBLICS	64
Budget Revenue of the Union Republics	65
Financing the Republican Economics	67
Development of National Culture	70
Local Budgets	72

I. BUDGET AND NATIONAL ECONOMY

Every student of Soviet economy naturally wants to know about the financing of the economic and cultural progress that has changed a recently backward agrarian country into a leading industrial power. What is the source of those material and financial resources, which has continued to feed the rapid expansion of economy and the welfare of the people? What laws govern the deployment of these resources in the required direction? How do they ensure the desired results?

These are not idle questions, for the Soviet Union has never received any foreign economic or financial aid. Practically half the period of its existence—almost 20 years—was taken by the Civil War and the Second World War and post-war rehabilitation.

On the eve of the Socialist Revolution, Russian industry lagged far behind that of many other countries. Antiquated methods prevailed in the countryside where there was hardly any farm machinery. The treasures of world culture were closed to the Russian people because seven out of ten could neither read nor write.

The First World War as well as the foreign intervention and the Civil War that followed the October Revolution all aggravated the economic situation—many factories and mills were idle, rail transport was at a standstill for lack of fuel, and there was a shortage of bread and other foodstuffs.

Economic chaos was accompanied by a severe financial crisis; the state budget showed a big deficit, the fiscal system was disorganized and inflation rampant.

At this crucial juncture, the new government charted a stupendous programme aimed at speedily overcoming the country's material and cultural backwardness; the programme aimed not only at restoring the national economy but also at greatly expanding it. Moreover, it had as its goal the building of a new, socialist society that would provide boundless scope for raising living standards, promoting science, engineering, and culture. Vladimir Ilyich Lenin wrote shortly before the Revolution: "Perish or drive full-steam ahead. That is the way history has posed the question."

This goal required an all-out effort by the people, and, of course, vast material and financial resources without which the contemplated transformations would remain castles in the air.

To restore the shattered economy, put an end to the chaos and famine and launch a far-reaching programme of economic and cultural development it was absolutely necessary to establish an efficient financial system.

"We must strive for stable financial reorganization by all means," Lenin said, "but we must not forget that radical reform is doomed if we fail in our financial policy."¹

The financial system was to help the socialist state muster the funds for the work with which it was entrusted. In a socialist state, however, the role of the financial system is not limited to mustering financial resources. Under socialism, finance is a factor of major importance in state planning. It helps to assess material values, labour expenditure and the financial resources of the state enterprises and cooperatives. These resources are distributed according to definite plans to meet the requirements of society as a whole. The financial system effects control

over the efficient and economic use of the funds and the material resources placed at the disposal of enterprises and organizations.

This varied nature of the functions of financial bodies is explained by the fact that the finances of a socialist state are based on the social ownership of the means of production. The finances of the U.S.S.R. consist of numerous closely intertwined links and form a continuous chain since they have a single economic basis and are subordinated to a general plan.

The Soviet financial system, then, comprises the state budget, the finances of industrial enterprises, collective farms, producer and consumer cooperatives, the various forms of state insurance (social, property, personal) and all forms of credit.

A special place belongs to the state budget through which the state forms a centralized fund to finance its economic, organizational, cultural and educational work.

The budget comprises a considerable part of the revenue obtained from the socialist national economy and a portion of the incomes of the population. It finances capital construction, as well as social, cultural and other undertakings. The state budget, closely linked up with the national economy, reflects the main aspects of the country's economic and cultural life.

The development of Soviet economy has been attended by a steady growth of the budget. The table below shows the steady rate of growth for each of the consecutive five-year plans (thousand million rubles).

The years of rehabilitation and the First Five-Year Plan	1922-1932	114.3
Second Five-Year Plan and three years of the Third Five-Year Plan	1933-1940	847.2
Second World War	1941-1945	1,117.1
Fourth Five-Year Plan	1946-1950	1,981.8
Fifth Five-Year Plan	1951-1955	2,630.8

¹ Lenin, *Works*, 4th Russ. ed., Vol. 27, p. 347.

The table shows that the post-war budgets have been several times greater than pre-war. The increase is a direct result of the industrial expansion and wider economic and cultural development.

The considerable expansion of industrial and agricultural production in the U.S.S.R. in recent years has established a firm basis for enlarging the financial resources of the state and has enabled greater allocations for economic, social, cultural and other undertakings. This can be seen from the budgetary figures for 1958, with revenue and expenditure estimated at 642.9 and 627.7 thousand million respectively, i.e., 50 per cent more than in 1950, the last year of the fourth five-year period.

Budget and National Income

The finance centralized in the state budget forms part of the national income which is used, through the budgetary allocations, for the benefit of the people as a whole. The growth of the budget depends on the growth of the national income.

The national income is derived from all branches of production—both industrial and agricultural—and from transport and trade, insofar as they serve as the continuation of the production process (freightage, packing and finishing, etc.). Society produces diverse material values which, in sum, constitute the gross social product. A part of the gross social product goes to replace the means of production that have been used, such as raw and other materials, fuel and depreciation of plant. After these replacements are made, the remaining material values constitute the national income of the Soviet Union. From this we see that the national income, being a new social product, expresses itself primarily in natural form, such as the goods used to meet the requirements of society and the means of production to expand production. The overall national income is expressed in terms of money.

It is known as the monetary expression of the national income. Part of it constitutes the wages of the factory and office workers and the incomes of the peasants who participate in producing values. The other part of the national income is the net social income, which covers expenditure on the further expansion of production, social and cultural needs of the people and other public and state requirements. Part of the personal incomes of workers and peasants may also be used for this purpose.

Economic progress inevitably results in the growth of the national income. For instance, the 1956 Soviet national income increased 210 per cent over the pre-war year of 1940 and 19-fold compared with 1913. The 1957 national income was six per cent over that of 1956. In the last five years (1952-57) the increase was approximately 62 per cent.

The rapid growth in the national income of the U.S.S.R. is explained by the fact that there is no unemployment in the country; it was abolished long ago; there is a steady increase in the number of workers employed in industry. The number of factory and office workers employed in the national economy grew from 31.2 million in 1940 to 38.9 million in 1950; by the end of 1957 it had grown to 52.1 million.

National income growth is determined mainly by the rising productivity of labour, which is now 800 per cent greater than before the Revolution. In 1956, the productivity of labour was 54 per cent higher than in 1950 for industrial workers and 64 per cent higher for agricultural workers (on the state farms). The higher productivity of labour has led to lower production costs and higher real wages. The rise in the productivity of labour and the higher wages for Soviet workers are effected by the extensive introduction of new techniques, mechanization and automation.

The national income created by the community is the only internal source for satisfying society's requirements.

In the U.S.S.R. the national income in its entirety belongs to the working people; three quarters of it are spent for the personal material and cultural needs of the population and one quarter for expanding the socialist industry.

Its distribution is carried out according to definite economic plans. These plans provide, among other things, for the number of factory and office workers to be employed, the overall wage bill, volume of capital investments, enrolment at educational institutions, the number of beds in hospitals and other items that make for the economic and cultural development of the country.

The state budget plays an important role in the distribution and employment of the national income. The greater part of the national income earmarked for industrial expansion is employed through the budget; it is used for capital investments and for increasing circulating capital, including stocks of raw materials and other material values in production and in storehouses and the circulating means utilized by the enterprises.

The budgetary allocations are used also for financing education and health services and other forms of free service, as well as pensions and grants. These allocations, which free the peoples of the U.S.S.R. from paying for educational and health services, actually constitute an addition to personal incomes.

The close link between the budget and the national income of the U.S.S.R. can be seen from the fact that the growth of the budget on the whole corresponds to the rate of growth of social production with a consequent increase in the national income. The following figures illustrate this.

	1940	1950	1957	1958 (as planned)
Industrial output	100	173	389	420
National income	100	164	334	360
Budget	100	234	341	356

Thus, if in 1958 industrial output and national income increase over 300 per cent and 250 per cent respectively as compared with 1940, the budget also goes up 260 per cent, i.e., it increases proportionally.

Budget and Socialist Planning

By centralizing a certain part of the national income in the budget, the socialist state ensures the planned utilization of financial resources of society as a whole.

Government planning agencies determine the annual revenue and expenditure of each industrial enterprise, organization or institution.

These figures are then stipulated in the financial plans of industrial enterprises and economic associations, as well as in those of Ministries, Economic Councils and other leading bodies.

In educational, public health and other establishments not connected with production, the financial plan is expressed in estimates. The financial plans of industrial enterprises are based on the requirements of the economic plan for the production and sale of commodities, capital investments and other indices. Estimates for education, health and similar establishments are drawn up in accordance with a plan covering the scope of the given institutions (number of pupils at schools, number of beds in hospitals, etc.).

However, the drawing up of the individual plans is not sufficient for the proper running of the economy as a whole. A general financial plan is needed to take account of all the financial possibilities of the country and provide for the financing of immediate tasks. The state budget of the U.S.S.R. is an instrument, which serves to co-ordinate the financial plans of industrial enterprises, economic organizations, credit agencies and government bodies throughout the country.

But this does not mean that the budget is compiled by mechanically summing up the finances of all industrial and economic organizations. Such a view of the budget would be erroneous for it would incorrectly reflect the relationship between the budget and the economy. As a matter of fact the budget represents only that part of the economic resources which is connected mainly with the development of national economy. We shall dwell on this in detail in Chapter II.

In the course of budgetary planning, however, changes are made when necessary in the financial plans of industrial enterprises and economic institutions and in the credit plans of the banks. These changes are made to ensure the most efficient use of the resources of the enterprises and also the use of their incomes that fully coincides with the state plan. Thus, we see that the Soviet budget is one of the means of planning the entire national economy; it is the basic financial plan of the Soviet state.

Revenue and Expenditure

The Soviet state budget reflects both the internal and external policy of the Soviet Union which aims at maximum expansion of the productive forces on the basis of higher techniques, satisfaction of the constantly growing requirements of society as a whole, and the preservation and consolidation of universal peace.

This policy, which embodies the main content of the functions of the socialist state, also determines budgetary revenue and expenditure.

The revenue consists principally of the receipts coming from the socialist economy, i.e., state enterprises (industrial, trading, agricultural and others), collective farms and cooperative organizations. A small part of the revenue comes directly from the people. Budget expenditure is designated primarily for financing the national economy and social and cultural undertakings.

The following table shows the chief sources of budget revenue and the changes in recent years (thousand million rubles).

	1952		1958	
	Total sum	Per cent	Total sum	Per cent
Total budget	497.7	100	642.9	100
Revenue from socialist enterprises	405.5	81.5	570.3	88.7
From the population	92.2	18.5	72.6	11.3

Revenue accruing from the socialist enterprises is made up of deductions from profits, the turnover tax levied on state and cooperative establishments, and certain other forms of revenue.

The considerable increase between 1952 and 1958 was due to the growth of production, lower production costs, higher productivity of labour and economy in materials and fuel. The cut in production costs is of particular importance for the accumulation of profits, which in 1958 will be much bigger than in the preceding years.

Budget revenue from the population is of secondary importance. Worthy of note is the fact that revenue taxes have been reduced considerably in recent years.

A feature of the Soviet budget is the fact that revenue systematically exceeds expenditure. This testifies to the stability of the financial system founded on the rapidly expanding economy of socialist society. In 1952 revenue exceeded expenditure by 37.5 thousand million rubles, by 16 thousand million in 1957 and 15.2 thousand million in 1958. This surplus provides the state with circulating means sufficient to ensure regular allocation from the budgetary funds throughout the year and, at the same time, to replenish the credit resources of the banks.

The chief function of socialist internal policy is to promote large-scale economic, organizational, cultural and educational activity. The state allocates the bulk of the national income and the budget for the discharge of

these functions and endeavours to minimize all expenditure not connected with economic development or public services. This is clearly seen from the dynamics and composition of the budget expenditure as shown below (thousand million rubles).

Expenditure	1952		1958	
	Total sum	Per cent	Total sum	Per cent
Total expenditure	460.2	100	627.7	100
National economy	179.1	38.9	257.2	40.9
Social and cultural measures	122.8	26.7	212.8	33.9
National defence	108.8	23.7	96.3	15.4
State administration	14.3	3.1	11.9	1.9
Payments and expenditure connected with state loans .	8.7	1.9	3.9	0.6
Other expenditure	26.6	5.7	45.6 ¹	7.3

Thus over 470 thousand million rubles, or three quarters of the entire expenditure, were allocated in 1958 for economic expansion and social and cultural development. This sum, representing an increase of 55 per cent over the 1952 expenditure, greatly contributed to the rapid economic and cultural progress.

The budget provides considerable sums for the development of industry, agriculture, transport and other branches of the national economy. Approximately three quarters of all capital investments are supplied by the budget. These investments also help maintain the necessary stocks to ensure the regular functioning of production. The budget also plays an important part in ensuring technological progress, in bringing virgin land under cultivation and other development measures.

The budgetary system, utilizing the advantages of the socialist mode of economy, furthers the realization of the present major economic task—through peaceful economic

¹ Including 16.7 thousand million rubles of the reserve fund used mainly on additional requirements of the national economy which may arise during the current year.

competition to overtake and surpass the most advanced capitalist countries in per capita production in a historically brief period.

Expenditure on social and cultural undertakings now accounts roughly for one-third of the entire budget. It finances the network of educational establishments, including primary, secondary and higher schools, research, the numerous medical establishments and state social insurance payments and pensions.

As to the expenditure on defence, its share in the budget is relatively small and in recent years has decreased noticeably. This is understandable, for a country engaged in economic and cultural development on so vast a scale cannot simultaneously spend equally large sums on the upkeep of its Armed Forces. This being so, military expenditure must necessarily recede into the background.

In 1955, defence expenditure amounted to 112.1 thousand million rubles; in 1958 it was 96.3 thousand million, i.e., 15.8 thousand million less. This means that the material, financial and labour resources of society used for the upkeep of the Armed Forces are now less than in previous years.

The reduction is due to drastic cuts in the Soviet Armed Forces effected in 1955 and 1956. During these years, the Armed Forces were reduced by 1,840,000 men. Dozens of divisions have been disbanded (including three Air Force divisions and other units, 30,000 strong, on the territory of the German Democratic Republic); hundreds of naval craft have been put into moth balls and armaments and materiel reduced. In January 1958 the Government reduced the Armed Forces by an additional 300,000 men.

Administrative expenditure is likewise being cut. In 1958 it was 2.4 thousand million rubles less than in 1952. This has been attained by reorganizing industrial management and bringing it closer to production. This measure has released numerous specialists from administrative bodies for work in industry.

The Budget System of the U.S.S.R.

The budget system of the Soviet Union is a ramified one, comprising 60,000 budgets of various kinds.

In conformity with the Constitution of the U.S.S.R. and the Constitutions of the Union Republics, each government body has its own budget.

The U.S.S.R. state budget consists of the U.S.S.R. budget and the budgets of the Union Republics, which include budgets of the Union and Autonomous Republics and the local budgets of the village, district, town and regional Soviets.

The budget system, founded on democratic centralism, is fully in keeping with the national policy of the socialist state based on the steadfast friendship and mutual aid among all the peoples of the U.S.S.R., aimed at building the new society.

Democratic centralism and the national policy of the Government are expressed in the fact that all Union and Autonomous Republics and local Soviets draft their own budgets which fuse into the single state budget of the Soviet Union.

In this way the budget system meets the requirements of all the nationalities and furthers the economic and cultural development of all Soviet peoples. It also ensures an integrated economic and financial policy and enables resources to be concentrated on the major national tasks.

The development of the budget system is characterized by the steady growth of the budgets of the Union and Autonomous Republics, which contributed substantially to their economic and cultural advance.

Measures taken in recent years to expand the republican economies and grant the republics wider powers in economic and financial planning have exerted considerable influence on the republican budgets.

This can be seen from the following data on budget expenditure (thousand million rubles).

	1940	1950	1956
State budget of the U.S.S.R.	174.3	413.2	563.5
Budget of the Union . .	132.2	317.3	387.6
Budgets of the Union Republics	42.1	95.9	175.9
Budgets of the Autonomous Republics and local budgets	30.1	65.7	87.9

The reorganization of industrial management and construction effected in 1957 divided the country into economic administrative regions and set up Economic Councils in each region; this measure enhances the role of the republics and local bodies in economic management and presupposes a further growth of their budgets.

These changes have necessitated reorganization of the U.S.S.R. budget and the budgets of the Union Republics. As a result the budgets of the Union Republics in 1957 totalled 270.5 thousand million rubles instead of 194.1 thousand million, i.e., they increased by 40 per cent. The volume of the U.S.S.R. budget decreased correspondingly. In 1958 the budgets of the Union Republics are to be brought up to 319.7 thousand million rubles. Thus, the budgets of the Union Republics now amount to nearly 50 per cent of the overall budget of the U.S.S.R. The new situation enhances still more the role and responsibility of the Union Republics for the fulfilment of the budget, timely receipt of all revenue and for rational use of the funds.

* * *

Broad democracy is observed in compiling the budget. Numerous governmental bodies ranging from village Soviets to the Supreme Soviet of the U.S.S.R. take part. In this respect it is highly significant that the national economic plan which, as we have seen, is closely linked with

the budget, is based on the drafts submitted by industrial enterprises and organizations where they are drawn up with the participation of a large section of the personnel.

As the budget is linked up with the entire economy of the country, this naturally helps in coordinating the work of the central and local bodies, spotlights the economic requirements and the needs of the population in the different parts of the country, and shows how these needs are to be met.

Broad sections of the population, executives and workers take part in drawing up the budget. The drafts are elaborated by corresponding executive bodies and approved by the Soviets. The draft state budget is then submitted for approval to the Supreme Soviet of the U.S.S.R.

Revenue and expenditure of each budget are first examined by the budget commissions of the local Soviets, the Supreme Soviets of the Autonomous and Union Republics, and the Supreme Soviet of the U.S.S.R. These commissions examine the estimates and consult the heads of the various organizations and Ministries. The commission submits its findings and proposals to the session of the corresponding Soviet.

During the budget debate the Deputies to the Supreme Soviet of the U.S.S.R. touch on a wide range of questions affecting the Government's home and foreign policy, major economic questions, and make relevant proposals on the revenue and expenditure of the draft under consideration.

Thus, for instance, during the debate on the 1958 state budget at the session of the Supreme Soviet of the U.S.S.R., apart from the representatives of the budgetary and other commissions who took the floor, another 40 deputies, representing various strata of the population of all the Union Republics, took part in the debate. This resulted in some amendments to the draft. The new budget totals 642.9 thousand million rubles in revenue—1.1 thousand million in excess of the original draft figure.

Expenditure on various economic, social and cultural needs was correspondingly increased.

The Supreme Soviet of the U.S.S.R., the Supreme Soviets of the Union and Autonomous Republics, and the local Soviets annually consider and approve the reports on the way budget assignments have been carried out.

II. FINANCING THE NATIONAL ECONOMY

In the Soviet Union there are no enterprises run by private capital; the budget is the basic means of financing the national economy. It accumulates part of the income of industrial enterprises and economic organizations and redistributes it in accordance with the national economic plan.

The following data show the amount of capital investments in the national economy between 1923 and 1958 and their share in budget allocations.

Years	Total expenditure (thousand million rubles)	Expenditure on national economy	
		Thousand million rubles	Per cent
1923-32 . .	112.5	61.3	54.5
1933-40 . .	821.5	351.4	42.8
1941-45 . .	1,146.8	244.4	21.3
1946-50 . .	1,865.5	709.8	38.0
1951-55 . .	2,511.4	988.1	39.3
1958 . . .	627.7	257.2	40.9

The allocations grew proportionately as the national economy expanded, enabling the state to tackle economic development on an ever-increasing scale.

Relationship between the Budget and the Economy

For a correct understanding of the relationship between the budget and industrial enterprises and economic organizations it is important to bear in mind that their

functioning is based on cost accounting (*khozraschet*). This method presupposes that, while obliged to fulfil the production and financial plans assigned to them, they enjoy the necessary economic independence.

Each enterprise has a basic and circulating capital in the form of premises, machinery and stocks of raw and other materials as well as circulating means to an amount stipulated by the plan.

It has full jurisdiction over the resources allocated to it, purchases raw materials, markets its output, engages in financial transactions and has its own bank account.

Each enterprise or organization (operating on the cost accounting principle) covers its expenditure on raw materials and manufacture out of the sums received from the sale of its products. As a rule, this expenditure does not figure in the budget.

The *khozraschet* enterprise has a certain net income in the shape of profits, part of which is used to expand production and satisfy the material and cultural needs of its personnel. In 1957 the sum of 45,000 million rubles, or 30 per cent of the profits, was retained by these enterprises.

Estimated profits at the disposal of enterprises in 1958 will exceed the 1957 figure by 14 thousand million rubles, amounting to 59 thousand million. This gives the Economic Councils and enterprises an added incentive for the development of industry and accumulation of additional funds. The remainder of the profits goes to the state budget and is used for financing other branches of economy, social and cultural undertakings, etc.

The budget also finances capital investments and other expenditure necessary for the expansion of the enterprises and branches of industry which lack sufficient funds of their own.

The deductions made from profits and the budget allocations are fixed annually when the budget is being compiled. For this purpose the Ministries, Economic Councils

and other economic organizations submit their financial plans to the government finance bodies who subject them to thorough verification. The Ministries, Economic Councils and other economic bodies do the same with the financial plans of the enterprises, thus revealing new possibilities for increasing the inner resources of enterprises through the expansion of production and reduction in costs.

In the course of budgetary planning the financial plans of some enterprises and branches are modified and supplemented in accordance with the development schemes and the financial possibilities of the state at the given time. Account is also taken of the total volume of capital investments envisaged in the national economic plan for the given year, the available stocks (building materials, equipment) and monetary funds.

Thus, the U.S.S.R. state budget, in addition to ensuring adequate financing of the individual enterprises and industries, helps to disclose supplementary financial sources, coordinates the indices of the various plans with those of the overall development plan.

As a rule the coordinated financial plans of the Ministries and economic bodies are appended to the draft budget, which, after examination by the Government, is submitted to the Supreme Soviet of the U.S.S.R. for approval.

The state budget allocates the funds and thus ensures the development of all the branches of industry, agriculture, transport, trade, public utilities and housing.

The bulk of the investments goes, however, to heavy industry, thereby ensuring the proportionate development of the national economy as a whole. This is fully in keeping with the socialist mode of economy, where the leading role belongs to industrial production, which satisfies the requirements of all branches of economy and of the population.

The state allocates large sums for the development and

maintenance of transport facilities—rail, sea, air and road transport.

Close attention has always been paid in the U.S.S.R. to socialist agriculture, for which there are large annual allocations.

As stated above the investments in the basic and circulating funds of the national economy as well as in enlarging enterprises are not confined solely to budgetary allocations. A considerable part is derived directly from the profits and other resources of the enterprises and organizations. If we include these, the state expenditure on the national economy is distributed as follows (thousand million rubles).

	Year	National economy as a whole	Industry	Agriculture	Transport and communications	Trade
Total	1,951.55	1,468.0	763.6	249.5	170.7	10.8
	1957	376.2	201.4	61.7	37.1	4.4
	1958	412.9	226.0	65.2	32.2 ¹	
Budget expenditure . .	1951-55	988.1	455.4	205.3	84.3	
	1957	244.7	118.4	53.0	18.0	
	1958	257.2	129.0	53.4	14.4 ¹	
Expenditure from resources of enterprises and economic organizations	1951-55	479.9	308.2	44.2	86.4	
	1957	131.5	83.0	8.7	19.1	
	1958	155.7	97.0	11.8	17.8 ¹	

Large investments in the national economy result in the rapid growth of industrial and agricultural output and trade turnover.

Financing Industry

The Soviet Government has always paid special attention to industrial development regarding it as a cardinal condition for the building of socialist society.

¹ This refers to enterprises of national administration.

"A large machine-building industry, capable also of reorganizing agriculture, is the only material basis possible for socialism," wrote V. I. Lenin.¹

Heavy industry, which includes the fuel, iron and steel, power, engineering, chemical and a number of other branches, has always been of decisive importance to the industrialization of the country.

Priority development of heavy industry is the basis for expanding the national economy as a whole, increasing the output of light industry, food industry and agriculture. A rapid growth in the output of the means of production serves the national interests, and without it there can be no substantial improvement in living standards and no strengthening of economic independence and security.

This is why the U.S.S.R. has spared no efforts in developing industry, primarily heavy industry, in which the major part of the accumulated resources are invested.

Industrialization was carried out on the basis of the internal accumulations, rigid economy; private savings deposited in the state savings banks and government loans were also used. In all this the state budget played an important part.

During this period the budget expenditure on national economy as a whole and on industry in particular was as follows (thousand million rubles).

	Years	Total budget expenditures	For entire national economy	For industry	For heavy industry
First Five-Year Plan	1928-1932	90.2	55.2	26.3	20.0
Second Five-Year Plan	1933-1937	369.8	184.0	75.4	55.9
Three years of the Third Five-Year Plan	1938-1940	451.7	170.4	83.3	54.6

¹ V. I. Lenin, *Works*, 4th Russ. ed., Vol. 32, p. 484.

The growth of the socialist economy enabled the country to make annual increases in budget investments in all branches, primarily in industry.

Thanks to the large investments during the first five-year plans industrial output soared. Branches new to the country, producing such items as tractors, automobiles, lathes, chemicals, aircraft, etc., came into existence. Output of electricity, oil products and coal was stepped up. New centres of the textile and food industries came into being. The result was that by 1940 the Soviet Union had become the world's second largest industrial producer.

Despite enormous military expenditure, wartime difficulties and the havoc wrought during the Second World War, industry continued to develop and vast sums were invested.

Altogether, during the war over 140 thousand million rubles were spent on financing industry, of which 120 thousand million were invested in heavy industry.

With the aid of these investments it became possible to transfer enterprises from the temporarily occupied districts to the Eastern regions where new plants were also erected. Later, immense restoration work was carried out on the territory liberated from the enemy.

The aftermath of the war had to be overcome and the further expansion of industry effected. The country's greater material and financial resources enabled it substantially to increase investments in all branches of the national economy, with industry getting priority. This, in turn, greatly augmented the basic and circulating capital.

During the Fourth Five-Year Plan (1946-1950), budget investments in industry amounted to 411.5 thousand million rubles, and in the subsequent Fifth Five-Year Plan (1951-1955) they reached 454.4 thousand million.

Investment in industry during the first post-war decade was **five times** greater than that of the entire pre-war period. **Since** the war large hydroelectric power stations

have been built on the Volga, Kama, Dnieper, Irtysh and Angara, together with the new steam power stations the overall capacity of all these installations amounting in 1956 to 32 million kw., i.e., nearly four times the aggregate capacity of all the pre-war stations (1940). New iron and steel plants have been built and the old ones enlarged; this has resulted in a more than 100 per cent increase in output of pig iron compared with pre-war. New and rich oil-fields are being worked in Bashkiria and Tataria, natural gas is being exploited on a large scale, while the new and the reconstructed engineering works have raised the output of this branch to five times the pre-war level.

These developments, naturally, have enhanced the Soviet Union's economic might. Today its industry manufactures 20 per cent of the overall world industrial output. Compare this figure with 1917 when Russia's share in world output was a bare 2-3 per cent. For industrial output the U.S.S.R. holds now the first place in Europe and second in the world. Its industry now annually produces as much as was produced in the country during the first 15-20 years after the October Revolution.

The prime task of the moment is the further development of ferrous and non-ferrous metal, oil, coal and chemical industries, more rapid construction of power stations and machine-building.

These tasks necessitate substantial annual increases in state allocations for all industries.

The 1958 budget and the national economic plan are based on the premise that in 1958 output of industry and agriculture will be considerably enlarged, capital investments increased in all branches of the national economy and particularly in housing construction.

Of the 129 thousand million rubles earmarked for industry in the 1958 budget the greater part will find its way to the iron and steel, chemical and oil industries. The plans call for exceptionally rapid development of these

branches. Existing metallurgical works will be enlarged and new coal and steel centres developed in the Eastern regions of the country.

A high level has been reached in heavy industry, science and engineering. This will result in a more rapid development of consumer goods production without detriment to the priority development of heavy industry.

In the next few years special attention will be focused on developing the chemical industry.

The plenary meeting of the Central Committee of the Communist Party of the Soviet Union, held in May, 1958, decided to speed up the development of the chemical industry with special stress on the production of synthetics. For this purpose use will be made of rich resources of chemical raw materials, natural and by-product gases, by-products of coke-chemical works, etc.; output of highly productive machinery for processing and refining chemical products will be greatly enlarged; research in chemistry will also be given special consideration.

Exploitation of the old oil-fields in Transcaucasia, and particularly of the new oil-fields in the Bashkir and Tatar Autonomous Republics and the Eastern regions of the country, is being widely expanded. The ever increasing supply of cars, lorries and tractors necessitates greater output of oil and oil products.

Large appropriations are made now for gas pipe-lines and gas industry development which will result in a 52 per cent increase of gas supply over 1957.

The progress of technology calls for considerable allocations for new machinery, machine tools and other equipment. Altogether the 1958 state budget assigns for this purpose 81 thousand million rubles, i.e., 19 thousand million rubles more than in 1957.

Substantial sums are being spent for extending the production facilities of enterprises engaged in processing agricultural produce, building and enlarging sugar refineries and food factories, and for increasing capacities of

textile mills, footwear factories and other branches of light industry.

The 1958 investments in trade are also on a large scale; the national economic plan envisages an expansion of retail trade by 45 thousand million rubles or 7.3 per cent as against 1957.

Expenditure on Agriculture

With a view to creating the abundance of farm produce needed to raise the standard of living of the urban and rural population and to supply industry with raw materials, the socialist state has always rendered generous financial aid to agriculture.

During 28 years (1929-1956) the sum granted from the U.S.S.R. budget for agriculture exceeded 500 thousand million rubles. These funds were spent on establishing machine and tractor stations and state farms, improving cultivation and developing other branches of agriculture. Over 140 thousand million rubles were invested during these years for the purpose of providing agriculture with fleets of tractors, combines and other machinery.

From the very first years of the October Revolution the Soviet Government, by the strictest economy, accumulated funds with which to aid the peasantry to restore their farms; every possible support was given to the newly formed collective farms and to the state farms designed to serve as models of efficient farming for the peasantry whom the government aided by hiring machinery, loaning seed, etc.

In 1923 Lenin wrote: "... a number of privileges to co-operation—economic, financial and bank credit—this should be the support of our socialist state for the new principle of organizing the population."¹

The cooperatives qualified for loans and grants, they were supplied with farm machinery on favourable terms

¹ V. I. Lenin, *Works*, 4th Russ. ed., Vol. 33, p. 430.

and enjoyed certain privileges in the sphere of insurance, taxation and other payments.

These measures undoubtedly helped strengthen the co-operatives and, together with the broad educational work, they furthered the spread of the cooperative movement among the peasantry. But the funds which the government was able then to allocate to agriculture were inadequate; during 1923-1927 the Government invested, through the state financial and credit system, 1.8 thousand million rubles, of which 540 million were granted to collective farms and other cooperative organizations, 612 million to individual peasants and 650 million to finance state farms and other state-owned enterprises.

During the next three years (1928-1930) allocations were more than doubled, reaching 4.5 thousand million rubles; the farm credit system attained greater importance. It became, and continues to be, the major medium of direct financial aid to collective farms on the part of the state, providing the collective farms with the necessary funds in the shape of long- or short-term credits through the banks as distinct from the free budgetary grants to the state farms and machine and tractor stations. The collective farms pay a definite rate of interest for these credits. In this respect the budget's role consists in allocating the necessary funds for increasing the credit resources of the Agricultural and State Banks.

Of exceptional importance were the state allocations to finance the manufacture of tractors and other machinery. With the installation of this industry, the number of tractors rose from 27,000 in 1928 to 125,000 in 1931, and their overall capacity nearly fivefold. Since 1929, a more rational and planned utilization of tractors, combines and other machinery began to be effected through the machine and tractor stations (MTS), whose task was to service the collective farms. In establishing these stations the state took into account the fact that the collective farms, then in the initial stages, lacked the necessary means with

which to buy machinery and to train skilled operatives.

And so, thanks to the machine and tractor stations, tractors, combines and other complex machinery became accessible to all the collective farms, i.e., to all the peasantry.

The machine and tractor stations worked for the collective farms in accordance with signed agreements. They received payment in kind (grain, cotton, beet, etc.) or in cash, in conformity with a fixed rate, varying for the different parts of the country depending on the harvest and other conditions. These payments in kind or in cash were included in the budget revenue, since MTS expenses were borne by the budget.

Industrial progress, providing the material and technical basis for socialist agriculture, the aid given by state farms, the valuable experience of the first collective farms and other forms of cooperation as well as the large-scale educational work paved the way from individual to collective farming.

Between 1928 and 1940 the number of peasant households which joined the collective farms rose from 1.7 to 84.3 per cent, their total crop area amounting to 89.4 per cent of the cultivated land. The collective-farm system had become predominant.

At this time the state investments in agriculture rose considerably; in 1931-1934, for instance, they amounted to 21 thousand million rubles, as against 4.5 in the preceding three years; in 1935-1937 they reached 26.4, and in 1938-1940 stood at 36.9 thousand million rubles.

The post-war years witnessed a substantial increase in expenditure since it was necessary to rebuild the farms destroyed during the war. Budget allocations for agriculture which during the war years—1941-1945—amounted to 32.2 thousand million rubles grew to 115.4 thousand million during 1946-1950.

In 1953, when some branches of agriculture began to lag, the Communist Party and the Soviet Government out-

lined measures for a sharp increase in agricultural production.

The output of tractors, combines and other farm machines was increased. By the beginning of 1958 the number of tractors had risen to 1,700,000 (in 15 h.p. units), an increase of 500,000 compared with 1953.

During the last four years the state spent 75.4 thousand million rubles for the construction of farm buildings and structures and credits for tractors and other farm equipment. In comparable prices this sum exceeds by 10 thousand million rubles all the capital investments made for this purpose in the Second, Third, Fourth and the first three years of the Fifth Five-Year plans.

In recent years a number of measures have been taken to provide added incentives to the farmers. Purchasing and procurement prices on all staple farm products have been raised and the agricultural tax cut. The homesteads of collective farmers, and workers and employees living in rural districts are totally exempt from obligatory deliveries of agricultural products as from January 1, 1958.

With a view to establishing a stable fodder base for animal husbandry and to satisfying the needs of the state and the population, special attention has been paid in recent years to new grain farms on virgin and fallow lands. In the space of three years (1954-1956) vast territory of virgin and fallow lands, 36,000,000 hectares (90 million acres), more than twice the area under grain crops in Britain, France and the German Federal Republic combined, was brought under the plough.

In 1958 a decision was taken by the state to reorganize the machine and tractor stations (MTS) into technical repair stations, and to allow the collective farms to purchase agricultural machinery (till now in the possession of the machine and tractor stations) as well as the new farm machinery, produced by the state enterprises. This measure of utmost importance for the further consol-

idation of the collective-farm system, was predetermined by the entire development of the collective farms, by the steady growth of their incomes, by the training which enabled the collective farmers to become skilled tractor and harvester combine operators and technical specialists and by collective-farm managements acquiring the experience needed for running large-scale production and complex equipment.

The machine and tractor stations helped in setting up and consolidating the collective farms; they were a vital political and organizing factor, which united the peasants in the collective farms and convinced them of the advantages of large-scale mechanized collective farming. The MTS were the medium through which technical progress was made possible in agriculture; they trained skilled workers and raised the efficiency of crop cultivation and animal husbandry. Through the MTS the state provided the collective farms with tractors and other machines which they were not in a position to buy at the time. Now, however, the MTS are no longer needed.

At present the collective farms are able to buy all the machines they need and to see that they are used even more efficiently. The new arrangement will further the consolidation of collective farms and facilitate expansion of agricultural production; the economic links between the collective farms and socialist industry will be strengthened and industrial aid to the farms increased. The MTS will be replaced by the TRS—technical repair stations—which will repair and service tractors, combine-harvesters and other machinery. They will also sell lorries, implements, fuel and other items to collective farms, hire out machinery and engage in land reclamation and other jobs.

The reorganization of the MTS and the sale of machinery to collective farms have greatly influenced the pattern of state expenditure on agriculture, the finances of the collective farms and their relationship with banks. The state budget now allocates funds for the maintenance of

the technical repair stations, for premises and equipment. The circulating means needed for the transfer of machinery to collective farms and for their upkeep will also be financed out of the state budget.

Since part of the machinery will be sold to collective farms on instalment payments, the long-term credits granted to the farms by the Agricultural Bank will be enlarged. The volume of short-term credits by the State Bank will increase, since these credits will cover expenses involved in the use of machinery (storing fuel, purchasing spare parts, etc.).

Implementation of the measures for developing agriculture is ensured by budget allocations, which in 1954-1956 reached 147.3 thousand million rubles, i.e., 41 thousand million rubles more than in the preceding three years. The 1958 budget allocations for this purpose amounted to 53.4 thousand million rubles.

The ramified network of crop-raising, animal husbandry and veterinary establishments and the widespread melioration work are financed by the state budget. Simultaneously the collective farms are given substantial long-term credits for the construction of cattle sheds, hot-houses, etc.

In addition, large budgetary sums were set aside for the increased procurement and purchase prices for grain, cotton, sugar-beet, potatoes and other vegetables, and for the meat and dairy products supplied by collective farmers.

These measures have resulted in a sharp rise in farm output. The gross grain crop for the last four years has risen 27 per cent compared with the preceding four years. During the same period overall yields of potatoes, beet and other vegetables, fibre-flax and raw-flax increased considerably. Production of meat, taking into account the growth of the livestock, has increased 38 per cent, of which collective and state farms accounted for nearly 80 per cent; the output of milk throughout the country has

risen by 50 per cent, and in collective and state farms by over 100 per cent.

The 1958 government decisions annulling obligatory deliveries and payment in kind for the work performed by the machine and tractor stations and the new system, prices and terms for the procurement of products are of great importance for the further consolidation of the collective farms.

In conformity with these decisions a uniform state procurement system for purchasing farm products has been established. Purchase will now be made in accordance with prices, which, depending on natural and economic conditions, vary according to region. Prices will be subject to alteration, depending on changes which may occur during the year. When harvests are low, the state may fix higher procurement prices; conversely, when crops are good, prices may be lowered.

In 1958 the new procurement system ensures the growth of collective farms' income by more than 31 thousand million rubles.

Capital Investments

A prominent place in budget expenditure belongs to capital investments in industry, agriculture and other branches of the national economy.

Capital construction is one of the foremost indexes of economic development in any country. The scale of capital investments and their steady growth indicate that a substantial portion of material and financial resources of the Soviet society is used for new construction and enlarging old enterprises, thus ensuring an extended reproduction.

Economic and cultural development in the U.S.S.R. is accompanied by a substantial growth of the annual volume of capital construction. The following figures give a picture of the aggregate capital investments made by the

state and cooperative organizations (not counting collective farms) during the 40 years of the Soviet state (thousand million rubles, in comparable prices).

Year	
1918-37	229.0
1938-41 (first 6 months)	145.3
1941 (last 6 months)-1945	140.5
1946-50	338.7
1951-55	654.4
1956	186.2
Total	1,694.1

The collective-farm investments over the same period comprised 160.9 thousand million rubles.

The distribution of capital investments, vividly illustrating the basic trend of the Government's economic policy, is of special interest.

For the period 1918-56, capital investments of the state and cooperative organizations (not counting the collective farms) were: industry—822.1 thousand million rubles (with heavy industry accounting for 728.1 thousand million), transport and communications—234.4, agriculture—141.4, housing—228.9, construction of trade and municipal enterprises and educational, health, scientific and cultural establishments—267.3 thousand million rubles.

To ensure the leading role of socialist industry and priority for the manufacture of means of production, the bulk of the capital investments were channelled, and still are, into industry.

By means of these investments the state built and rebuilt over 32,000 large industrial enterprises and a considerable number of medium and smaller factories, established 5,800 state farms, 8,000 machine and tractor stations, laid 111,000 km. of new railway lines, carried out a vast housing programme and built large numbers of schools, scientific and medical establishments. In 1957 the investments were considerably greater than in 1956, and in 1958 they will exceed those of 1957 by 7.4 per cent.

Plans for the next few years envisage construction on a still greater scale.

Basically, capital investments in the Soviet Union are made from the internal resources of the national economy. Industrial and economic bodies provide part of the investment out of profits remaining at their disposal, depreciation funds and other internal resources. That part of the profit which goes to the budget (as mentioned above) is spent on industries without sufficient resources to cover their expenditure. For instance, large sums are now allocated for natural-gas extraction and for raising the output of cement and other building materials since profits from these industries are still insufficient.

It is in this redistribution of resources that we see the advantages of planning; it facilitates the channelling of resources accumulated by the national economy into those industries whose development is vital to the country.

The U.S.S.R. state budget plays a very important role in this redistribution of resources.

The 1958 budget allocations for capital investments and growth of circulating capital of the building organizations comprise 142.7 thousand million rubles, with profits, depreciation funds and other means at the disposal of the enterprises amounting to 61.1 thousand million.

All the resources earmarked for capital investments are concentrated in the long-term investment banks—the Industrial, Agricultural and Municipal Banks. This creates favourable conditions for uninterrupted financing of construction and for efficient control over the spending of these funds. While paying out money in strict conformity with approved projects and estimates, the banks ensure that the investments are used in the most economic and rational way. For supervision the banks employ a qualified staff of engineers, technologists, economists and building experts.

The resources assigned for capital construction are

used primarily to finish and commission the most important projects; this is done to prevent dispersal of resources on too many jobs at one time.

Providing Circulating Capital

For its normal functioning each industrial enterprise or economic organization has at its disposal certain stocks of raw materials and other items, fuel, etc., some of which are used in the various production processes, while others are kept in stock. Factories always have a certain quantity of ready-made production on hand for delivery to customers. They also have some funds (in cash or in the bank) for current payments to the suppliers of raw materials and for other expenditure incurred prior to receiving payments from customers.

These resources constitute the circulating capital of the enterprise. Together with the funds needed to cover expenditure incurred in marketing manufactured goods, they comprise its circulating means. Their structure is not the same for all branches. It depends on the kind of production, the type of items manufactured, the time it takes to produce them, the terms of sales and delivery, and a variety of other circumstances.

The amount of circulating means needed is provided either by the enterprise itself or by bank credits. As a rule the enterprise provides its own means to meet requirements of a permanent character. More than half the circulating means in industry at present forms a production reserve, and about one-third ensures the completion of unfinished production; the remainder is used to create stock of manufactured goods. Bank credits meet requirements of a temporary or seasonal character. In particular, banks provide enterprises and organizations with short-term credits for the accumulation of stocks of raw materials, other items and finished goods and for other purposes associated with production and marketing.

Often enterprises need credits in order to cover expenditure while finished goods are en route to buyers and payments have not yet been made. They receive credit on the presentation of duplicates, invoices and waybills.

The relationship between the means of the enterprises and the credit investments of the U.S.S.R. State Bank can be seen from the following data as of January 1, 1957 (thousand million rubles).

	Circulating means of enterprises	Credit investments of the State Bank
Total	252.6	243.6
of which:		
Industry (including industrial cooperatives)	143.5	97.2
Agriculture	15.1	8.3
Procurements	2.7	17.2
Internal trade	49.8	88.4
Transport and communications	6.9	1.2

The state budget plays its part in forming the circulating capital of enterprises and organizations. This is true both in regard to the means at the disposal of the enterprises, and to the loans received from state banks. The bulk of the circulating capital of the enterprise is derived from its profits or from the profits of other enterprises of the same industry, i.e., through redistribution of profits.

During recent years about two-thirds of increments to the circulating means in the entire national economy were provided directly by the resources of industrial enterprises. The remainder came from the budget. The budget takes part in the formation of the circulating capital also because it is one of the main sources for replenishing bank credit resources. Budget allocations are granted to the banks either to increase their statutory funds,¹ or as

¹ Statutory funds are granted by the state for the disposal and permanent use of the State Bank, registered in their statutes.

temporarily free resources credited to various budget current accounts.

Each year, when planning the budget, the funds earmarked for the banks to replenish their resources are fixed in accordance with the planned volume of production and goods turnover. This circumstance is taken into account, in particular, when the scale of revenue over expenditure is being assessed—the surplus is used largely to augment the credit resources of the banks.

At the present time budget allocations average 40 per cent of all the credit resources of the banks.

By taking part in the forming of the circulating funds of the national economy, the state budget ensures normal circulation of means and speeds up business settlements.

III. RAISING LIVING STANDARDS AND THE ROLE OF THE BUDGET

Implementation of measures to raise the standard of living necessitates vast expenditure. This is reflected in the steady and rapid growth of budgetary expenditure on social, cultural and other undertakings.

Total budgetary expenditure for social and cultural needs is shown below (thousand million rubles).

The First Five-Year Plan (1928-32)	20.2
The Second Five-Year Plan (1933-37)	93.7
The first three years of the Third Five-Year Plan (1938-40)	113.6
During the war (1941-45)	213.4
The Fourth Five-Year Plan (1946-50)	524.4
The Fifth Five-Year Plan (1951-55)	659.7

These figures show that expenditure on social and cultural needs in the post-war period was far greater than in pre-war. The expenditure has been stepped up considerably in recent years. In 1958, the total budgetary expenditure on social services is planned at 212.8 thousand million rubles, 96.1 thousand million more than in 1950, and 420 per cent more than in the pre-war year 1940.

In pre-revolutionary days expenditure on social services was meagre indeed.

The following data characterize the growth of social services expenditures in the U.S.S.R. (thousand million rubles).

	1940	1952	1958
Education	22.5	58.5	84.2
Health protection	9.0	22.3	40.4
Social insurance and welfare	9.4	42.0	88.2
Total	40.9	122.8	212.8
Percentage of total expenditure	23.5	26.7	33.8

The role of the budget in raising living standards is not limited to allocations for the social services. Vast sums are assigned for housing, wage increases in some industries, reducing retail prices and other things.

Taking these allocations into consideration, the total amount spent directly on the needs of the population is over 40 per cent of the entire budget. It is clear that this adds substantially to the personal incomes of the population.

Development of the social services, including housing, is an integral part of the economic and cultural programme and is implemented in conformity with the state plan.

The plan provides indices for the network of educational and health establishments (schools, hospitals and other services, staffing them with trained personnel and providing the necessary equipment, etc.).

Below we shall dwell in detail on each of these divisions of the state budget.

Expenditure on Education

A cultural revolution has taken place in the U.S.S.R. under Soviet rule. Before the October Revolution 75 per cent of the population of Russia could neither read nor write. Illiteracy has long since been abolished, seven-year schooling is universal, while secondary education,

now being widely introduced, will soon become obligatory. Training of specialists is carried out on an immense scale; science, engineering and the arts have won an honorable place in Soviet society. Over 50 million people, or one-fourth of the population, attend one or another educational establishment—school, college, evening classes, etc.

State appropriations for public education are designated primarily for educating children and youth, training specialists, general enlightenment, science and art.

This expenditure, which, as stated above, is increasing year by year, amounted to 84.2 thousand million rubles in 1958, or 5.2 thousand million more than in the preceding year.

Public education in the U.S.S.R. is a matter of universal concern. The upkeep of schools and the building of new schools, kindergartens, nurseries, etc., is wholly financed by the state.

In 1958 alone, the expenditure on general schools and extra-school measures for children comprised 37.4 thousand million rubles, compared with nine thousand million in 1940. These figures give an idea of the expansion of public education, the growth in the number of schools and pupils. At the same time they testify to the highly important qualitative improvements in the system of education, namely, the switching from universal elementary to seven-year schooling and the steadily expanding ten-year (secondary) schooling in town and countryside. This is illustrated by the following table.¹

	(In millions)	
	1927-1928	1956-1957
Total number of school pupils	11.6	30.1
Schools of 1-4 classes	9.9	15.6
" 5-7 " 	1.3	7.4
" 8-10 " 	0.17	6.1

¹ The table does not include the special establishments for urban and rural overgrown youth. Nor does it include children attending supplementary schools and schools for disabled children.

The table shows that while the total number of pupils has more than doubled in 30 years, the number of pupils in the fifth, sixth and seventh classes increased 5.6 times, and in the senior classes nearly 36 times.

It is anticipated that by 1960 universal secondary education will have embraced practically all urban and rural localities; children will receive a ten-year general education or will attend technical, agricultural, medical, etc., secondary establishments.

A large part of budget appropriations for public education is expended on teachers' salaries. Teachers in the U.S.S.R. enjoy universal respect, and their salaries, which are fixed by the Government, depend on qualifications, proficiency and years of service. In the Soviet times teachers' salaries have been repeatedly raised. In addition to their salaries, teachers in rural localities, like doctors, are entitled to free housing with heating and lighting.

The steady expansion of the educational system necessitates considerable school building for which purpose the state budget assigns large funds. In 1951-55, for instance, 5,819 schools accommodating 2,000,000 children were built with government funds. By 1960 construction of new schools (under the Sixth Five-Year Plan) will be approximately double that of the preceding five-year plan (1950-1955).

Special boarding schools have been opened in recent years; here the children live and are fed and clothed free of charge or for a small fee.

Pre-school education (kindergartens, playgrounds and nurseries) is also very extensive. In 1956 over six thousand million rubles were spent on the upkeep of the pre-school establishments. Today kindergarten attendance is in excess of 2,000,000—50 per cent more than in 1950.

Great importance is attached to technical and other specialized training at higher schools and technical colleges. The number of specialists with a higher or specialized secondary education has risen from 200,000 in 1913

to 6,300,000 in 1956, i.e., 33-fold; this includes hundreds of thousands of engineers, agricultural experts, teachers, doctors, etc. Along with meeting the need for specialists, this has also contributed in a big way to the steady cultural, scientific and technical development.¹ The present student body in the higher schools is upwards of 2,000,000, and at technical and other specialized secondary schools is in the region of 2,000,000.

The state supplies the funds for equipping the higher educational establishments and technical schools, for the scholarships received by most of the students and all the expenditure connected with the upkeep and expansion of these establishments.

The state also pays for the vocational training at the factory and trade schools, farm mechanization schools, etc. In 1957 these schools trained some 700,000 skilled mechanics, tractor and harvester combine operators and other workers.

A total of over 22 thousand million rubles was spent by the state in 1958 on the training of skilled personnel at higher and secondary technical schools and other educational establishments.

State outlay for scientific development consists of allocations for the U.S.S.R. Academy of Sciences, the Academies in the Union Republics, research institutes, laboratories and other scientific establishments. There is a numerous scientific personnel—260,000 specialists in various branches; in 1913, by way of comparison, their number was but slightly in excess of 10,000.

The state aids scientific research by providing the necessary equipment and materials and by creating conditions for fruitful work. Here is what the famous scientist I. P. Pavlov said at the 15th International Physiological Congress: "You have heard of, and you have seen,

¹ At present the Soviet Union prides itself on having over 700,000 engineers, whereas in the U.S.A. there are less than 400,000 engineers.

the exceptionally favourable status enjoyed by science in my country. I would like to illustrate the relations that have been established between the state and science by the following fact: We, the heads of scientific establishments, are truly worried and alarmed because we are not certain whether we shall be able to justify all the allocations that the Government has placed at our disposal." Since then expenditure on science has increased enormously; in 1958 it amounted to 18.2 thousand million rubles, including 15 thousand million granted by the state budget.

The close attention given to science greatly furthers the development of research in every branch. This can be seen from such facts as the commissioning four years ago of the world's first atomic power station, the jet and turbo-prop airliners, and the launching of artificial satellites.

The network of libraries maintained by the state and the trade unions, collective farms and cooperative organizations plays an important role in spreading culture. These libraries serve tens of millions of people in town and countryside.

There are, in addition, thousands of clubhouses, recreation rooms and other cultural establishments—all financed by the budget. The same is true of museums and art exhibitions. Budgetary funds are assigned for the construction of new theatres, cinemas, circus buildings and other places of entertainment. Grants are made to theatres regarded as possessing artistic merit but unable to maintain themselves by their own efforts. The numerous art schools, too, are financed by the state.

Expenditure on Public Health

The health service is one of the outstanding achievements of the Soviet state.

The health service provides the public with free and

highly qualified medical aid, supervises sanitation and hygiene in town and village, in factory and office, conducts health education, promotes physical culture and engages in medical research.

Extension of the health service is fully covered by budgetary allocations which are increasing year by year. In 1958 the state assigned for this purpose 40.4 thousand million rubles, or 2.4 thousand million more than in 1957.

The following data shows the development of the health service.

	1913	1940	1956	1957
Total number of doctors (excluding army doctors) (in thousands)	23	141	329	346
Number of doctors per 10,000 of population	1	7	16	17
Hospital beds (thousands) (excl. military hospitals)	207	791	1,361	1,432
Beds per 10,000 of population	13	41	67	70

The 1958 expenditure on public health provides for further extension of the medicinal establishments.

By the end of the year there will be 81,000 more hospital beds than in 1957.

The figures given above show that since the October Revolution the number of doctors has increased 15-fold, the number of medical establishments 6.9 times.

Clinics and other medical centres in urban and rural localities have increased several times over. The upkeep of the medical and hygiene institutions is financed entirely by the state budget.

Medical establishments are to be found in industrial enterprises, the large factories having their own complex of clinic-prophylactic centres.

At the Likhachov Automobile Works in Moscow, for instance, the workers benefit from the services of four professors, 108 doctors, and 150 assistant doctors, nurses, etc. The workers have their own hospital. The hospital and the clinic pride themselves on having complex X-

ray, physio-therapeutical and other equipment. In addition, the plant has 17 first-aid points, four prophylactic centres and two dietetic canteens. For the families of the employees there are nurseries, a children's sanatorium and summer camp.

All in all, the plant's health budget totals 20,000,000 rubles.

Along with the general medical and prophylactic establishments, the state provides funds for the sanitary inspectors' departments and local anti-epidemic stations. Sanitary inspectors keep all residential places, factories, etc., under regular observation. Prevention of possible epidemics or outbreaks of infectious diseases is one of their chief functions.

In the countryside, too, the health service has been developed on a grand scale. In addition to the usual medical establishments, the rural population is served by field medical stations where doctors and their assistants are at hand to give medical attention to agricultural workers.

Budget appropriations provide the health centres with up-to-date medical equipment. For people residing in remote localities the first-aid service commands special transport facilities, including planes, etc.

Mother and child welfare holds a special place in the health budget, the state maintaining maternity homes, women's welfare centres, kindergartens and nurseries. Expectant mothers are granted leave of absence from work with full pay. In 1956 the maternity leave was extended from 77 to 112 days (56 days before and 56 days after confinement). This measure necessitated an additional allocation of nearly 1,000 million rubles.

In 1957 maternity homes had 186,000 beds. Mother and child welfare centres numbered 14,000, while the nurseries accommodated 1,000,000 children. Moreover, many collective farms, aided by the public health bodies, maintain their own maternity homes, seasonal nurseries and children's playgrounds. In 1957 the collective-farm

seasonal nurseries and playgrounds catered to some 3,000,000 children.

Mothers of large families and single mothers benefit from generous allowances. The current budgetary allocation for this purpose is five thousand million rubles.

The numerous spas, sanatoria and rest centres play an important part in the health service. The state maintains 295 balneological, mud-bath and climatic resorts, 2,178 sanatoria and 939 rest homes. Nearly five million working men and women benefit annually from their twenty-four days stay at the spas, sanatoria and rest homes.

The cost of the accommodation at sanatoria and rest centres is largely covered by state social insurance.

State Social Insurance. Pensions

In the U.S.S.R. maintenance in old age, and in cases of illness and disability is borne by the state. The funds for this purpose are provided by the budget; collective farms and cooperative organizations also apportion special funds.

Security is ensured by the state and is effected through the state social insurance and welfare funds. The position of factory and office workers and their dependents is secured through the benefits received from the social insurance fund during illness or temporary disability; they also include allowances to expectant mothers before and after confinement, old-age pensions, subsidies to sanatoria and children's summer camps and free accommodation at sanatoria and rest homes. Social security benefits are available to ex-servicemen and members of their families, life-long invalids, persons who have rendered outstanding services to the state and mothers of large families, and single mothers.

Pensions and other benefits received by working people under the social insurance scheme meet their requirements

substantially and constitute an important addition to the income of the people.

Pension security derives from the State Pensions Law adopted on July 14, 1956, by the Supreme Soviet of the U.S.S.R. This law granted substantial increases to most pensioners. On the average, monthly pensions rose by 80 per cent, while old-age pensions were doubled. Disability pensions and allowances for families suffering loss of their bread-winners rose by 50 per cent and more.

Factory and office workers, upon reaching the stipulated age, qualify for old-age pensions ranging from 50 to 100 per cent of wages or salary.

The following table shows changes in pension payments in recent years (thousand million rubles).

	1955	1956	1958
Total expenditure on pensions . . .	30.1	36.5	66.0
including:			
Old-age pensioners	8.7	12.6	34.2
Payments paid out to pensioners who remain at work	4.7	5.1	5.8
Pensions paid out to ex-servicemen and members of their families . .	15.6	17.5	23.4

Compared with 1955 the 1958 state expenditure on pensions has doubled.

The budget also provides funds for training invalids for the purpose of restoring their ability to work. With this aim in view they undergo training at technical and vocational schools and at courses and in factories. When trained they find jobs in branches of industry where the work is light and in invalid cooperatives.

Homes for the aged and invalids are also financed by the budget. In 1957, the 1,055 homes for the aged and invalids accommodated 135,000 men and women.

Allocations from social insurance funds for benefits

to temporarily disabled workers are growing year by year.

As a result of these measures state expenditure on social security has grown considerably. The 1958 budget-appropriations amounted to 88.2 thousand million rubles, i.e., 16.8 thousand million more than in 1957, or 15 times more than in 1940.

A substantial part of these appropriations is taken up by social insurance.

Social insurance is implemented by the state. Its funds derive from contributions made by industrial enterprises and other organizations, without any deductions from wages or salaries. The scale of the contributions, established by the state, represents a certain percentage of the wage bill, differentiated for the various branches of national economy (ranging from 3.7 to 10.7 per cent of the wages paid).

These funds make up the social insurance budget, which is part of the state budget of the U.S.S.R. The funds, used solely for purposes mentioned above, are controlled by the trade unions, which plan their distribution and sanction payments to the insured.

The social insurance budget of the U.S.S.R. is endorsed by the Presidium of the Central Council of Trade Unions, while social insurance estimates for separate branches of the national economy, individual enterprises and establishments are approved by the respective central committees of the trade unions, factory, shop and local committees.

The 1958 social insurance budget—revenue and expenditure—amounted to 57.5 thousand million rubles; in 1957 it was a little over 50 thousand million and in 1940 only eight thousand million rubles.

Growth of Real Earnings

The U.S.S.R. state budget plays quite an important role in raising personal incomes.

This is achieved by way of wage and salary increases,

reductions in food and consumer goods prices, and by the higher procurement prices for farm produce.

Wages have risen in recent years. For instance, salaries of doctors and other medical personnel were raised in 1955, wages of building trades workers at the beginning of 1956, of miners and other coal industry workers at the end of 1956. Lower paid workers in various industries were granted increases on January 1, 1957. In the iron and steel industry wages were raised at the end of 1957. Total wage increases in 1957 amounted to 12 thousand million rubles.

Real wages go up in keeping with rising labour productivity attained through the introduction of up-to-date machinery in industry, in which the state invests large sums. Moreover, in conformity with the decisions of the XXth Congress of the Communist Party of the Soviet Union, a gradual shortening in the workday is now taking place, thanks to which hourly rates are actually rising. Thus, the rise in wages, accompanied by the reduction in working hours, is of double advantage.

Of considerable importance is the steady lowering of retail prices. Seven major reductions in state retail prices have been made in the past 10 years, affecting nearly all articles of food and consumer goods; as a result real wages and other incomes rose 2.3 times.

The sums gained annually by the public from the price reductions in the state and cooperative shops were as following:

(Thousand million rubles)

In 1948—57	In 1952—23
1949—48	1953—46
1950—80	1954—20
1951—28	

In subsequent years lard, pork, fish, canned goods, cameras, television sets and other goods were reduced in price. At the same time large funds earmarked by the

budget for raising the standard of life were used mainly for raising wages in many branches of the national economy, pension increases and similar measures.

The cut in retail prices on consumer goods was of great benefit for the peasantry as well.

In recent years the increase in real incomes of the peasantry and the growth of agricultural production were greatly facilitated by the higher prices paid for practically all farm products delivered to the state. For instance, in 1954-1957 there were substantial increases in the procurement and purchasing prices for grain, meat, milk, wool, eggs, vegetables, fruit, sugar-beet and cotton. Due to these increases the incomes of collective farms and their members in 1957 exceeded those of 1952 by 50 thousand million rubles. If we bear in mind that the total sum of produce sold to the state has also increased in volume, then the 1957 incomes surpassed those of 1952 by 64 thousand million rubles. At the same time the farm products sold to the public by state and cooperative stores far from going up in price steadily declined.

These measures ensured a significant increase in the peasants' incomes and, simultaneously, provided an incentive to step up output of farm produce, thus making more food supplies available.

The act of abolishing (Jan. 1, 1958) the obligatory deliveries of farm produce to the state by the collective farmers, workers and employees, will greatly enhance the well-being of the population. The annual gain to the population from this measure will be in the region of three thousand million rubles.

Expenditure incurred by lowering the retail prices and raising procurement prices, is reflected in the budget either in definite allocations, or in a corresponding reduction in certain types of revenue.

The growth in real incomes is reflected directly by the increased purchasing power. This can best be seen from

the data on the volume of the retail turnover—in 1957 it grew 14 per cent—which shows the heavy demand for such items as motor-cars, television sets and furniture.

House Building

Each year the state allocates vast funds for house building. The figures for 1929-1955 give an idea of the scale.

Years	Floor space in millions of sq. metres ¹
1929-1932	32.6
1933-1937	37.2
1938-1941	34.4
1946-1950	72.4
1951-1955	112.9
1956	36.4
1957	51.1
1958 (according to plan) .	61.0

New houses with nearly 300 million square metres of floor space were built anew or rehabilitated at the expense of the state and by means of state credits during the eleven post-war years up to 1957—50 per cent more than the entire floor space of urban housing in pre-revolutionary Russia. This indicates the high rate of house building.

However, the Central Committee of the Communist Party of the Soviet Union and the Council of Ministers of the U.S.S.R. in their decision "On the Development of the Housing Construction in the U.S.S.R." of July 31, 1957, pointed out that house building was not keeping pace with the needs of the population. It underlined that housing had suffered grievously from the war and enemy occupation, dur-

¹ This implies housing construction at state expense and by cooperative organizations.

ing which 1,710 towns were reduced to ruins and nearly 70 million sq. metres of dwelling space destroyed, leaving more than 25,000,000 citizens homeless.

The Communist Party and the Government have issued a special decision for a greater volume of state housing construction than that envisaged previously by the Directives of the XXth Congress of the Communist Party for the Sixth Five-Year Plan. According to the revised plan the volume of floor space in 1956-1960 will be 215 million sq. metres, i.e., more than twice the volume built during the Fifth Five-Year Plan.

It stands to reason that a housing programme of this magnitude necessitates a tremendous outlay. To meet the expenditure the state has assigned for the 1956-1960 period 78 thousand million rubles more than was spent on housing during the Fifth Five-Year Plan. In the years following the Sixth Five-Year Plan the expenditure on house building will be still larger.

For housing in 1958, the state budget allocated 36.8 thousand million rubles, compared with 25 thousand million in 1956.

IV. BUDGET REVENUE

A feature of the Soviet budget is an annual increase in revenues based on the steady expansion of industry. This, in its turn, contributes to the continued development of the national economy and fuller satisfaction of consumer needs. It follows, then, that the increased budget revenue results not in lowering, but in raising incomes, in raising the standard of living. Between 1950 and 1956 budget revenue increased by 163,100 million rubles, or nearly 40 per cent. During the same period industry doubled its output, real income of workers and employees rose by 44 per cent and peasant income by 68 per cent.

The following figures give an idea of the structure of the budget revenue (thousand million rubles).

Items of Revenue	1952		1958	
	Sum	Per cent	Sum	Per cent
Total revenue	497.7	100.0	642.9	100.0
1. Revenue from socialist economy	405.5	81.5	570.3	88.7
including:				
a) Deductions from profits of enterprises and economic organizations	58.5	11.7	130.3	20.3
b) The turnover tax	246.9	49.6	301.5	46.8
c) Payments of enterprises and institutions to social insurance fund	21.6	4.4	32.1	5.0
2. Accruing from the public	92.2	18.5	72.6	11.3
including:				
a) Taxes	47.4	9.5	49.8	7.7
b) State loans	36.9	7.4	4.6	0.7
c) Savings banks deposits	4.8	1.0	13.0	2.0

This data shows that revenue deriving from the socialist economy is a vital item in the Soviet budget—the backbone of the financial system and of budget revenue.

The Soviet state, based on the socialist ownership of the means of production—factories, mills, land, transport—has at its disposal enormous material and financial resources which it uses in a planned way to develop the national economy and culture and satisfy consumer needs.

The growth in industrial and agricultural production and the national income is the solid basis for the growth of budgetary revenue.

Revenue accruing directly from the population has decreased in the past five years, both in absolute figures and in percentage of the budget. True, the overall sum derived from taxation has increased somewhat during this period, but this is due to the growth in the numbers employed, the growth of the wage bill and other incomes subject to taxation. Simultaneously taxes have been considerably reduced, with the result that the part of taxes in budgetary revenue accruing from the population has declined.

Revenue from Socialist Economy

The main items of budget revenue are: deductions from the profits of state enterprises and economic organizations, payments from the turnover of the state and cooperative establishments, income tax from cooperatives and collective farms, social insurance payments from state establishments and enterprises, forest and customs duties, local taxes paid by enterprises, etc.

Economically speaking this revenue is part of the net income of society, created in production. In other words it is that part of the national income expressed in the product created for society by the labour of workers of industry.

The employment of various methods for collecting socialist economy revenue makes it possible to assess more fully the different phases of the activities of the enterprises and to ensure the smooth flow of revenue into the budget. Socialist economy payments are fixed either on the basis of the overall receipts of the goods realized or on the basis of the profits, i.e., on the quantitative and qualitative indexes of the business activities of the enterprises. In some cases payments are calculated on other grounds, i.e., the cost of buildings, the wage bill, etc. All socialist economy payments are economically uniform, depending on the results of production and financial activities of the enterprises.

The payments from profits, made in the form of deductions from profits of the state enterprises and organizations, and the income tax paid by cooperatives reflect more fully their business and financial operations. Profit is an important index, reflecting all the main aspects of the work of enterprises and related both to the quantity of production and cost of production.

Profit-making is indispensable to cost accounting; it makes it possible to assess the work of the establishment, to spotlight its good and bad aspects.

Growth of profits is the direct result of the rise in output, higher productivity of labour, and lower production

costs. From 1950 to 1957 the profits of state enterprises and cooperative organizations increased 3.3-fold.

The importance of profits in the total sum of revenue also rises. In 1957 profits from industry accounted for 30 per cent of the total cash accumulation in socialist economy compared with 15 per cent in 1950. Rising profits in industry are proof of the financial consolidation of the socialist economy, a manifestation of the stability of the financial system.

Moreover, it should be borne in mind that profits have grown simultaneously with wage increases in some branches and with reductions in wholesale and retail prices.

The scale of profits, like the deductions from profits into the budget, is fixed when the financial plans of state enterprises and economic establishments are drawn up. In doing this, all the economic and organizational factors affecting volume and cost of production are thoroughly assessed. This includes the supply of raw materials and fuel, the necessary machinery and prospects for its replacement by more up-to-date machinery, facilities for using new types of raw material, substitutes, etc.

All the elements of cost of production are studied to find ways of reducing it by more efficient labour organization and increased productivity of labour, more effective utilization of equipment, raw materials and fuel and by cutting overheads.

A fairly heavy responsibility in this respect devolves on the financial organs which examine the financial plans of enterprises and branches of economy and subject their activities to thorough analysis. This is done for the purpose of exploring the possibilities for expanding production, lowering costs and accumulating funds.

Managerial reorganization in industry and building is vital in the matter of improving the economic and financial activities of the enterprises and, consequently, for the growth of their profits. This is understandable, since regional economic management makes it possible to assess

production potentialities more thoroughly, avoid irrational transportation, non-productive spending and waste.

Deductions from the profits of state enterprises and economic organizations are based on estimated profits and on the outlay earmarked by the given enterprise or branch of industry for extending production.

Profits of enterprises are used for capital investment and adding to circulating means, etc. A special fund is created out of profits at each enterprise (ranging from one to four per cent) for extending production, housing building, cultural needs and bonuses.

The following figures show how the profits of the national economy were distributed in 1958.

	Total profits (in thousand million rubles)	Distribution of profits		
		Deductions for the budget	To increase circulating capital	For capital investments
Total profits of the national economy ¹	188.4	128.6	14.3	25.1
including:				
Industry and building . . .	111.6	71.3	8.9	18.4
Agriculture	5.1	1.7	0.9	1.3
Transport and communications	23.9	18.4	0.5	3.3
Trade	14.8	8.7	3.0	0.7

Large sums are deducted from profits for budgetary purposes because of the need to redistribute profits in accordance with the needs of economy as a whole and for giving priority to the branches of capital importance. Present financial policy pursues the line of using a considerable part of the profits of the enterprises to increase their circulating capital, finance construction work, train personnel and cover certain other expenditure.

¹ Remaining sums are used for repayment of the State Bank loans granted for the purchase of new machinery, for geological prospecting, research and for public utilities and housing.

Payments from the profits of cooperative organizations are in the form of income tax, which is calculated on the total profit at a rate established by law.

The different methods of taxing the profits of state enterprises and cooperative organizations are explained by the specific nature of cooperative property, which belongs to separate bodies of the working people and not to society as a whole. All the profits made by the cooperatives are retained by them after income tax payments have been made. They use their profits for capital investment and other purposes. Accordingly, the state provides the cooperative organizations with the necessary means not by way of direct subsidy, but by long- and short-term credits through banks.

The turnover tax, another major item in the socialist economy revenue, is likewise part of the net revenue of the society. Like profits, it is determined by taking into account volume of output, its cost, and also the stipulated price.

For a considerable range of goods the turnover tax comprises the difference between the wholesale prices fixed for industry (applicable to analogous products of all enterprises) and those for individual enterprises, or the difference between the wholesale and retail prices. For example, the retail price of a certain item is, say, 115 rubles, its production cost is 100 rubles. If five rubles is fixed as the sum needed to make the work profitable, the turnover tax will be 10 rubles. Thus, it is not the turnover tax that determines the price, but, on the contrary, the amount of the tax depends on the fixed prices.

This form of payment, consequently, is not a tax in the usual sense of the word, it is one of the forms of income for society as a whole. This is corroborated also by the fact that the relationship between the turnover tax and profit as expressed in the price of any item is, as practice shows, subject to diverse changes. The rate of profit, for instance, may increase if the turnover tax is maintained or even lowered and, vice versa, the turnover tax may be increased though the profit may correspondingly be cut, etc. This im-

plies that profit and the turnover tax are different forms of one and the same income from socialist economy, forms established in a regular way and planned beforehand.

Profits, as the above description shows, are used largely by the enterprises to expand production. This is one way of providing incentive. In this respect profits represent net income of the given enterprise. The case is different as regards the turnover tax, all of which enters into the budget, being the centralized net income of society as a whole.

The necessity for this centralization derives from the nature of the planned economy which presupposes redistribution of a portion of accumulated funds of the enterprises for the benefit of the national economy.

Payments of various kinds to the budget by state enterprises help to secure a balanced budget.

As we have already said, diverse factors, depending on the work of the given enterprise and on other circumstances, may influence the total profits. Besides, the volume of real profits made by an enterprise can be ascertained only after the expiry of a definite period, at any rate not before the end of the month, when most of the factors affecting production cost become clear. The sum of profits can be established only after the year's balance sheet is drawn up.

This means that these payments can be made only after the lapse of a fairly long period, whereas normal budget functioning requires that the bulk of the revenue flows in evenly.

To a considerable degree these requirements are met by payments made to meet the turnover tax. The payments depend on one condition only—fulfilment of the production plan and the sale of the products, so that payments may be made at more frequent intervals. For some kinds of production payments are accepted daily, for others—once in 10 days. In some cases payments can be made monthly. It should be said that the turnover tax must be paid fully into the budget irrespective of the results of the financial activities of the enterprises.

All payments of the turnover tax made by separate enterprises and organizations are remitted entirely to the state budget and cannot be used for their own needs. This provides the needed stability in the inflow of state budget revenues.

In levying the turnover tax the financial bodies verify plan fulfilment both in quantity of goods and as regards their range and quality; they also check their timely delivery to the wholesale and, subsequently, retail trading organizations.

Depending on the results of these checks, the financial bodies take steps to ensure fulfilment of the production and turnover plans.

In assessing the deductions from profits, the financial bodies thoroughly examine the plans and balance sheets of the enterprises and organizations, study their economic and financial problems, and reveal internal resources that can be used for industrial progress and increasing financial accumulations.

Thus it is clear that both kinds of payments serve the planned management of socialist economy and the timely accumulation of financial resources.

The above-mentioned payment by state enterprises of their social insurance quotas is also of importance to the state budget.

Direct Taxes

Direct taxes occupy a relatively minor place in the revenue of the Soviet budget since the state in which the main means of production belong to society can satisfy its basic needs out of the revenue of the socialist economy. Funds provided by the people, therefore, are of secondary importance in the socialist state, which uses various methods in acquiring funds from the population, taking into consideration the financial resources of the state economy and the paying capacity of the different categories of the population.

During the Second World War, for example, when the Nazi invaders occupied vast industrial territories, revenue from the socialist economy sharply decreased. The state was forced to seek extensive aid from the population. A wartime tax was introduced, loans floated, and the system of lotteries practised. After the war these extraordinary measures were abolished.

Taxation is one of the ways in which the people participate in expenditure made by the state, the state returning the funds with a surplus in the shape of vast expenditure on cultural development, public health, pensions, etc.

For instance, budget expenditure for social and cultural requirements in 1958 is fixed at 212.8 thousand million rubles, 4.2 times more than the total tax paid by the public.

A feature of the socialist tax system is its complete uniformity, embracing the whole country in accordance with laws enacted by the Supreme Soviet of the U.S.S.R.—the highest legislative body of the socialist state. This ensures that taxes are collected in conformity with law and prevents the imposition of taxes and payments not sanctioned by the state.

In 1958, the total sum of state taxes received from the public was 49.8 thousand million rubles, 2.2 thousand million less than in 1957.

Tax scales and other levies have been sharply reduced in recent years.

From January 1, 1957, many workers have been exempted from income tax and other payments; the taxable minimum was raised to 370 rubles and taxes on wages between this minimum and 450 rubles monthly have been substantially reduced.

All pensioners are exempt from taxes. Incomes derived from gardens or personal plots of land belonging to citizens residing in towns or factory settlements are likewise exempt. Considerable tax reductions have been made for citizens with dependents. Nearly 85 per cent of the persons

formerly liable to the bachelor tax, single people and small families are now exempt from taxation.

The new law has reduced the revenue from this tax by six thousand million rubles.

Income tax is paid by workers, writers and journalists, handicraftsmen working on their own or united in cooperatives, persons renting premises, etc.

Income tax varies, depending on the category of the taxpayer and his income. Higher incomes, naturally, are taxed more heavily.

For instance, a worker receiving 371 rubles per month pays a nominal tax of 50 kopeks, 0.14 per cent of his income. A salary of 450 rubles is taxed 4.8 per cent; for a salary exceeding 1,000 rubles per month the tax is 13 per cent—the top rate for this category of tax-payer. Taxes are deducted monthly on pay days at the place of work. Newspapermen, writers and art workers pay their taxes when receiving their fees or royalties, in accordance with the rates for wages and salaries.

As for the remainder of the tax-payers, the revenue officials, basing themselves on their income returns, assess the taxes to be paid in compliance with existing rates.

The agricultural tax, collected from peasants and other persons deriving incomes from farming in rural localities, is so arranged as to promote farming by increasing the number of privately owned cattle and to ensure that personal plots are put to better use and sown to crops of greater value and profit both to the holder and the state.

With this aim in view, the tax in the rural localities is calculated according to the area of the household plot irrespective of what is cultivated on it. Taxes on gardening, wine-growing and privately owned cattle are exempt.

Income gained by the farmers through work on their collective farms is also exempt from taxation.

For the Union Republics the law established average or maximum rates in rubles per 1/100 of a hectare. Guided by

this table, the republican organs assess the rates for separate territories and regions, the local Soviets for separate districts and, when necessary, for villages. In defining the rates for separate localities, their economic peculiarities are taken into account, as, for example, the use of land for various cultures, the crop yield, proximity of markets, etc. Thus the average rate for the R.S.F.S.R. is 8.5 rubles per 1/100 of a hectare, in the Latvian and Estonian republics—4 rubles. With an average rate of eleven rubles per 1/100 hectare prevailing in Moscow Region, in some parts of it the fixed rate varies from seven to sixteen rubles.

The agricultural tax provides for full or partial exemption from taxation of disabled people and also of servicemen and their families, men over 60 years and women over 55 years. Households affected by natural calamities are also covered by these privileges. Teachers, doctors and agronomists residing in rural localities are also totally exempt from taxation.

A considerable portion of tax receipts go to republican and local budgets to meet the needs of local economic and cultural development.

In addition to the state taxes, the local Soviets also collect taxes. These include a building tax of one per cent of the cost of construction, a tax on farmers selling products at the collective-farm market—amounting to one or two rubles per day to cover the needs of markets—and levies on motor-cars, bicycles and other vehicles. These local taxes accrue in full to the local budgets.

State Loans. Savings Bank Accounts

State loans also comprise part of state budget revenues. Up to 1958 most of these loans were sold to factory and office workers and peasants through subscriptions. In addition to these there is a loan that was floated in 1947, subsequently released in a number of separate issues, in negotiable bonds bought and sold by the savings banks.

The public loans were mostly lottery loans, issued as a rule for a term of 20 years, with the exception of the 1957 loan, which was floated for a term of five years. Originally the interest on these loans was three or four per cent but since 1955 it has gone down to two per cent. This is explained by the growing purchasing power of the ruble.

Within the last 10 years the state has paid out more than 74 thousand million rubles to the winners of bond drawings. Taking these payments into account, the total state debt incurred by loans of the U.S.S.R. (subscribed by the population) stood at 260 thousand million rubles at the beginning of 1957. If this is compared with the annual budget, it will be seen that the state debt is only 40 per cent, much smaller than that of a number of other countries.

The growth of budget revenue from state and cooperative enterprises—the result of the increased output in industry and agriculture—created favourable conditions for discontinuing loans.

Accordingly, questions pertaining to the floating of loans were submitted to public discussion in April 1957. Numerous meetings took place at which workers, peasants and intelligentsia suggested that the floating of loans be discontinued, and that redemption of loans issued earlier be postponed. The enormous funds thus economized are, according to proposals, to be used to build more houses and meet other public needs.

As the result of the public discussion, the Government decided to halt as from 1958 all further issue of internal loans, to postpone for 20 years the redemption of loans issued earlier, and to discontinue all drawings on these bonds. Simultaneously, it resolved to continue the practice of buying and selling the 1947 three per cent loan through the savings banks. It is anticipated that in 1958 the revenue from the sale of the 1947 loan will amount to 2,000 million rubles.

For revenue purposes the state budget uses a certain

amount of the provisionally idle funds of the saving banks. The main function of the savings banks is to handle current deposits, of which the most common are those drawing two per cent interest.

The savings banks, an autonomous economic organization with its own resources, work under the supervision of the Ministry of Finance. They put their provisionally idle funds at the disposal of the state budget, receiving interest on them. Fifty per cent of the profit made by the savings banks is credited to the budget.

By January 1, 1957, the U.S.S.R. had 51,000 savings banks with 37 million clients whose deposits at the end of the year totalled 80 thousand million rubles, 5.6 times more than in 1950. The extension of savings bank operations is an indication of the rising living standards.

V. THE BUDGETS OF THE UNION REPUBLICS

The October Revolution in Russia led to a radical change in national relations and in the economic and cultural life of all the peoples of the country.

The rapid growth of the productive forces and culture of the Soviet peoples has done away with the age-old economic, political and cultural backwardness of the formerly oppressed nations, who lived in the outlying marches of tsarist Russia.

The measures carried out in recent years, giving republican government bodies a greater part in economic and cultural matters, were of considerable importance for the economic development of the Union Republics. As a result of reorganization of the economic management of industry and building, practically all industrial enterprises and the greater part of new construction which formerly came under all-Union control are now administered by the Union Republics.

Nowadays the republics also run the state farms, for-estries, etc., road and river transport and other industries.

The changes introduced into the work of planning and financing organizations of Union Republics were designed to promote their independence and initiative in these matters.

The budgets of the Union Republics play a prominent role in their economic and cultural development. They are one of the manifestations of the state sovereignty of the Union Republics, constituting a solid material and financial basis for their activities.

The budgets of the Union Republics are growing steadily. In 1940 the budgets of the Union Republics totalled 42.1 thousand million rubles; by 1950 the total had risen to 95.9 thousand million and by 1958 to 319.7 thousand million.

This shows that, compared with 1950, the 1958 state budgets of the Union Republics increased 3.3 times, and are now 7.6 times greater than in 1940. Their share in the overall U.S.S.R. state budget has changed from 26.1 per cent in 1955 to 50.9 per cent in 1958.

When the state budget of the U.S.S.R. is discussed, the budget expenditure of the republics is given only in outline. Within the limits of these assignments the Union Republics plan their budgetary expenditures for the various branches of economy and social and cultural needs. Thus they are able to take full account of the economic requirements both of the republic, and of its regions, cities and districts.

Budget Revenue of the Union Republics

Stable sources of revenue are of prime importance for the growth of the budgets of the Union Republics. Revenue is derived both from the economies under the direct management of the republican bodies and from the incomes and taxes accruing to the Union Republics from the U.S.S.R. budget.

Expansion of the republican economies has resulted in a considerable growth in revenue.

Moreover, the republican budgets receive substantial sums from the U.S.S.R. budget for regulating (or financing) their budgets.

The transfer of national resources to the republican budgets is of major political and economic importance; this testifies to the uniformity of the Soviet financial system. Those resources aid the republics which lack the income means needed for further economic expansion.

By means of this regulation the national income is redistributed in a way that safeguards the interests of the Soviet Union as a whole and those of the separate republics in equal measure.

Practice has evolved several methods of budget regulations, namely, subsidies, subventions and income deductions. Subsidies provide a republic with the necessary funds by direct allocations from the U.S.S.R. budget for unspecified purposes. Subsidies were widely granted during the pre-war period, when some economically backward republics were short of revenue of their own and were afforded considerable aid from the all-Union funds to help their development. Subventions were used largely during the first years of the Revolution when part of the Soviet budget was earmarked for certain expenditures.

Today the most widely used practice is the system of deductions from incomes and taxes due to the national exchequer.

Each republic is apportioned a definite percentage of deductions from the all-Union incomes and taxes collected on its territory, or these incomes and taxes are transferred in full from the all-Union budget to the budget of the republic. This system ensures a steady inflow of revenue and gives the Union Republics an interest in the timely collection of all-Union revenue.

The amount of deductions is fixed annually, depending on the financial requirements of the separate republics, and provided that it gains the approval of the Supreme Soviet of the U.S.S.R. in its Budget Law for the given year.

At present all republics receive 50 per cent of the income tax and 40 per cent from the bachelor tax and the tax on single people and small families. Into the exchequers of the Union Republics flows the entire tax on collective farms, the agricultural tax and forestry incomes. Besides they qualify for part of the turnover tax, depending on the conditions peculiar to each republic.

In selecting the regulating sources and in assessing the amount of deductions, account is also taken of the time needed to collect them to avoid intermissions due to late payments.

In 1956, for instance, at the request of the Turkmenian, Uzbek and Tajik republics part of the income due from machine and tractor stations and income tax from collective farms, usually paid at the end of the year, was replaced by more regularly collected revenue.

Financing the Republican Economies

Budget expenditure of the Union Republics provides the necessary funds for developing their productive forces and culture. The following data shows the growth in the expenditure of the budgets of the Union Republics (thousand million rubles).

Years	Total expenditure for national economy	Including	
		Industry and construction	Agriculture
1940	8.6	2.1	2.5
1950	22.6	5.3	8.6
1956	75.0	35.1	14.7
1957	142.3	92.1	20.5

In 1958 the Union Republics allocated 174.7 thousand million rubles from their budgets for their economies.

The rapid growth of expenditures in recent years is explained by the further development of the republican and local industries and the transfer of enterprises formerly

under all-Union administration to republican management.

The following figures are characteristic. The 1958 state budget allotted 129 thousand million rubles for financing industry, of which 96 thousand million or more than 74 per cent is to finance the development of industrial enterprises and organizations under the control of the Economic Councils, as well as the enterprises still under the control of the Union Republics.

Budgetary funds for agriculture are likewise increasing year by year, arising from the measures taken in recent years to ensure the further advance of agriculture.

Capital investments in the economies of the Union Republics affect not only their own budgets. Considerable allocations are made by the all-Union budget to finance construction projects and other industrial expenditure.

The large investments have ensured the industrialization of all the Union Republics and the development of modern, primarily heavy, industry.

New branches of industry, power plants and new oil-fields have been built and developed in formerly backward areas (the Turkmen, Bashkir, Tatar and other republics); ferrous and non-ferrous industries have been built in the Kazakh, Uzbek and Georgian republics, and a machine-building industry in all the Union Republics. Industries producing foodstuffs and consumer goods have also been built.

In 1913, in Tajikistan there were but a few small workshops employing 200 workers. It did not have a single power station. In Soviet times Tajikistan has changed beyond recognition. It has its own ore-mining, coal, metal-processing, textile, butter-making, oil-extraction industries and power stations. Compared with 1940, output of coal has trebled, that of cotton more than doubled and cotton fabrics increased 200 times.

Pre-revolutionary Uzbekistan, a backward and remote colony of tsarist Russia, had only a few small ginneries, oil refineries and workshops. Today the republic has

highly developed industries employing over a million workers. It has a powerful coal industry, extracts oil and is developing a non-ferrous industry. Manufacture of agricultural and textile machinery is well to the fore. Compared with 1940, output of electricity has increased ninefold.

Good progress has been made by the Baltic republics—Lithuania, Latvia and Estonia, which joined the U.S.S.R. only 18 years ago. For instance, gross industrial output of Lithuania in 1956 was 5.7 times that of 1940, of Latvia 6.7 and of Estonia 7.5 times.

It is common knowledge that bourgeois Latvia was an agrarian appendage to Germany and Great Britain, to whom it exported bacon and butter in exchange for manufactured goods, including even nails. Soviet Latvia today manufactures radio sets, automatic telephone stations, hydrometric apparatus, equipment for steel mills and exports manufactured goods to other countries.

She has made especially big strides in recent years in machine-building, in chemical, building materials, fuel, textile, foodstuffs and other industries.

In Lithuania, too, big advances have been made in the machine-building, electrical equipment, food and fishing industries.

Estonia has made good progress in ship-building, power engineering, measuring instruments and in manufacturing plant for the oil and shale industries. The republic prides itself on its large cotton mills. Shale is mined and refined on a large scale.

Thanks to the state budget allocations the 15 Union Republics now have first-class farming machinery; their farming techniques have advanced, the crop area has been extended and higher yields are reaped.

Large sums have been spent on irrigation projects which considerably increased the area under cultivation.

Big sums have been invested also in transport and communications facilities.

Development of National Culture

Expenditure on social and cultural measures is prominent in the budgets of the Union Republics and is growing steadily (thousand million rubles).

Year	Total expenditure for social and cultural needs	Including		
		Education, science and culture	Health services	Social insurance
1940	28.0	16.9	8.0	3.1
1950	63.2	37.4	18.9	6.5
1957	116.1	54.4	31.4	30.0

In 1958 the republican budgets appropriated for social and cultural undertakings 127.7 thousand million rubles—40 per cent of their overall expenditure.

The financing of universal education on a mass scale in the U.S.S.R. has played a big role in the development of culture of all the Soviet nationalities.

In pre-revolutionary Russia the most backward peoples were those in the eastern and south-eastern borderlands.

Today these nationalities have caught up with the other Soviet people in the percentage of school pupils. This is shown in the following data:

	Elementary and secondary school pupils	Technical school students	Higher school students
	(Per 1,000 of the population)		
Total for the U.S.S.R. . . .	141	9	9
In the Eastern Union Republics	167	8	8

The budget allocations for education in the Union Republic budgets enabled them to introduce universal seven-year schooling and by the end of the Fifth Five-Year

Plan to complete in all their capitals and main towns the transition from seven- to ten- year schooling.

The network of technical schools, higher schools, research institutes, theatres, cinemas and other social and cultural establishments has been greatly extended.

Only 17,000 children attended school in Uzbekistan before the Revolution; today their number is 1,335,000.

In pre-revolutionary Tajikistan there were just 400 pupils. Their present number is 331,000.

Higher schools, formerly non-existent in Uzbekistan, Kazakhstan, Kirghizia and Tajikistan, are now widespread. The Kazakh S.S.R. has 26 higher schools with a student body of above 55,000—5.4 times more than in 1940.

Tajikistan has several higher schools with over 16,000 students, eight times more than in 1940.

The number of students in Lithuania grew from 6,000 in 1940 to 24,000 in 1956, in Latvia from 10,000 to 16,000 and in Estonia from 5,000 to 12,000.

The high scientific and cultural level reached by the Union Republics is shown by the fact that 13 of them have their own Academies of Sciences and the remaining two republics have branch Academies.

The Union Republics also finance numerous pre-school establishments, libraries and other cultural and educational establishments.

They also finance most of the health establishments—hospitals, clinics, dispensaries, maternity homes, nurseries, sanatoria, first-aid stations, etc. Large sums are also allocated by the U.S.S.R. budget for these purposes.

In 1957 the Union Republics spent 31.4 thousand million rubles on public health, 3.9 times more than in 1940.

The people benefit from medical services both in town and country, even in remote places such as the Siberian tundra and the Central Asian deserts.

Well-equipped hospitals and other health establishments can be found in places where medical aid was unknown prior to the Revolution.

The old Kirghizia had but 100 hospital beds and only 20 doctors. Turkmenia had but 70 doctors for a million people; Armenia had only 73 doctors. Moreover, medical aid was available only in densely populated areas, and could be afforded only by the wealthy.

But why speak of the remote Eastern borderlands! Even in relatively well developed places such as the former bourgeois Latvia, Lithuania and Estonia, medical aid for working people was almost inaccessible. Nowadays in the family of equal Soviet republics they have hospitals, clinics, maternity homes, sanatoria and other medical establishments.

The strides made in health protection in the U.S.S.R. can be seen from these data.

Republics	Number of doctors			Number of beds (thousand)		
	1913	1940	1956	1913	1940	1956
R.S.F.S.R.	15,797	90,842	210,226	133.1	482.0	799.9
Ukrainian S.S.R. . . .	7,841	35,258	69,037	47.7	157.6	263.2
Lithuanian S.S.R. . . .	421	1,971	4,025	2.2	8.9	17.3
Latvian S.S.R.	638	2,502	4,538	6.2	12.0	19.4
Kirghiz S.S.R.	21	600	2,494	0.1	3.8	10.0
Tajik S.S.R.	19	648	1,857	0.1	4.5	9.7

Extension of the health services was assured by the corresponding rise in budgetary allocations.

Local Budgets

The budgets of Autonomous Republics and territorial, regional, district, town and village Soviets are important components of the budgets of the Union Republics.

The budgets of the Autonomous Republics and local Soviets have grown steadily, keeping pace with the development of the overall budgetary system of the U.S.S.R., and reflecting the progress of economy and culture in all parts of the country.

In 1956, local budgets were approved at 87.9 thousand million rubles compared with 65.7 thousand million in 1950 and 30.1 thousand million in 1940.

Thus, since 1950 the local budgets have grown by more than one-third, exceeding the pre-war level 2.9-fold.

The budgets of Autonomous Republics and local Soviets provide the local administrative bodies with adequate means to satisfy the cultural and everyday needs of the population and to develop the local economy.

The right to its own budget is enjoyed by each local Soviet, since it exercises full authority within the confines of its territory.

The local Soviets, in addition to setting up committees for health, education, municipal services, etc., also have finance committees which supervise the local economy.

The number and scale of the budgets of the U.S.S.R., as of January 1, 1957, were as follows.

	Number of budgets at the close of 1956	The budgets in thousand million rubles
Autonomous Republics, territories, regions and areas	165	15.8
District	4,162	28.0
Town	2,045	36.3
Urban settlements	2,528	2.0
Village	50,265	6.0
Total	59,165	87.9

To give an idea of the significance of local budgets, we shall cite two typical examples. For instance, the 1956 budget of Zubovo-Polyansk District in the Mordovian Autonomous Republic was approved at 11 million rubles, of which 6.8 million were spent on education and 2.5 million on the health services. It maintained 62 elementary and secondary schools, five boarding schools, 16 libraries, five hospitals, 17 village medical stations, and a number of other establishments.

The 9.3 million ruble budget of Drozhanov District in the Tatar Autonomous Republic financed 53 schools, 19 libraries, 35 village club-houses and reading rooms, two hospitals and 31 medical stations.

Local budgets finance a broad network of educational and health establishments, pensions, housing, cultural and communal construction, local industry, trade, public utilities, etc.

A large part of the local budgets is used to finance schools (including boarding schools), kindergartens, nurseries, libraries, club-houses, and other educational establishments.

Contributions from local sources make up 50 per cent of the U.S.S.R. state budget expenditure on education.

The local Soviets maintain schools for nearly 27 million children, kindergartens for 684,000 (not counting the schools and kindergartens financed by the budgets of the U.S.S.R. and Union Republics), nearly 150,000 libraries, village reading rooms and other cultural and educational establishments.

The functions of the local Soviets in the sphere of public health are many-sided. They work through an elaborate network of hospitals, clinics, first aid stations and other medical institutions.

It is impossible to compare the vast expenditure of the local Soviets on social, cultural and economic undertakings with the paltry spending of the town and rural authorities in pre-revolutionary Russia. According to data for 1913, rural authorities spent less than one ruble a year on education and about half a ruble on health services per head of the population. They maintained a few elementary and vocational schools and a tiny number of hospital beds. The "solicitude" of the city fathers can be seen from the fact that in Moscow in 1916 only one-third of the houses had running water, and about one-fourth had sewerage.

The growth of local budgets is ensured by the stable and constantly growing revenue accruing mainly from state

and cooperative organizations. Their revenue comes both from the local economies and from grants made by the All-Union budget—either in a lump sum or as a percentage of local taxes. These sums are determined annually depending on needs. Revenue is growing in conformity with the further development of the local economies and the continued transfer of a number of enterprises from republican control to that of the local Soviets.

* * *

The remarkable economic and cultural transformations, which have taken place in the U.S.S.R., necessitated a vast outlay.

The funds came from the internal resources of socialist industry, through rigid economy in materials, finance and labour, and thanks to the planned distribution of the national income in the interest of society as a whole.

The investments have yielded astonishing results, which can be seen in the thousands of new factories, in the state and collective farms and in tens of thousands of schools, hospitals and other establishments. They have ensured consolidation of the economic might of the U.S.S.R. and have led to a substantial rise in the standard of living.

В. ЛАВРОВ
БЮДЖЕТ СОВЕТСКОГО СОЮЗА

77

